FINANCIAL TIMES

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TUESDAY MARCH 31 1998

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Why Goldilocks continues to thrive
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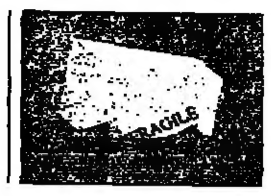

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German politics
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WORLD NEWS

Yeltsin rules out another term but makes no move to back Chernomyrdin

Russia's succession struggle intensified as Boris Yeltsin said he would not run for a third term as president, but he stopped short of choosing former prime minister Victor Chernomyrdin to replace him. He also made clear that last week's abrupt dismissal of the cabinet and prime minister had been his idea and not Mr Chernomyrdin's. **Page 18**

France firm on 35-hour week
France's Socialist-led government turned down a request from the employers' federation for a two-year delay in plans to introduce a 35-hour working week as of 2000. **Page 4**

Romanian leader steps down
Victor Ciorbea tendered his resignation as prime minister last night, deepening Romania's political crisis, after leaders of his own party withdrew their support. **Page 3**

Voting leaves Ukraine divided
The political deadlock that has impeded reforms in Ukraine showed little sign of being broken after elections failed to provide a clear-cut majority for any party. **Page 3**

Ross ends Middle East mission
US Middle East envoy Dennis Ross is due to return to Washington today after failing to persuade Israeli and Palestinian leaders to reach a deal for a further Israeli troop withdrawal from the West Bank. **Page 10**

Asylum seekers crash UN gates
Fourteen Indonesians claiming to be political refugees from the Aceh independence movement drove a truck through the gates of the UN refugee agency in Malaysia's capital, Kuala Lumpur, and requested asylum from forced deportation. **Page 8**

EU to seek millennium trade talks
The European Union agreed to lead calls for a Millennium Round of global trade negotiations at the turn of the century, but did not find unanimity for bilateral trade liberalisation talks with the US. **Page 5**

Ousted Cambodian PM returns
Cambodia's ousted first prime minister, Prince Norodom Ranariddh, returned to Phnom Penh pledging to reorganise his royalist party in preparation for elections in July. **Page 8; Observer, Page 17**

Taiwan transport chief resigns
Taiwan transport minister Tsay Jaw-yang resigned to take responsibility for a series of air disasters including last month's crash of a China Airlines jet that killed 202 people.

Breathing space for Ankara
Turkey's Mesut Yilmaz has secured a breathing space for his minority government by accepting military demands for new measures against Islamic radicalism. **Page 4**

Forest fire emergency in Guyana
Guyana has declared a state of emergency and has asked for international assistance to combat forest fires blamed on a drought caused by the El Niño phenomenon. **Page 7**

Moscoso wins Panamanian primary
The Arnulfist party, main force in Panama's opposition, chose party leader Mireya Moscoso to run against incumbent Ernesto Perez Balladares in next year's presidential elections. **Page 7**

Escapist reading with Gadaffi
A book by Libyan leader Colonel Muammar Gadaffi is being released in Canada. The publishers say *Escape to Hell and other Stories* reveals "a man of letters fascinated with images and metaphors and concerned with the destruction of our planet".

BUSINESS NEWS

Swissair forges new European air alliance that could generate $11bn

Swissair, Switzerland's flagship airline, has teamed up with Sabena, Austrian Airlines, TAP Air Portugal, Turkish Airlines and AOM of France, to form a new European airline alliance that will carry almost 50m passengers a year and generate revenues of $11bn. **Page 22**

BMW will announce plans to reshape the board of Rolls-Royce Motor Cars to stress the independence of the UK luxury carmaker it is buying from Vickers for £340m ($572m). **Page 19; Embarrassment of riches, Page 16; Observer, Page 17; Lex, Page 18; Analysis, Page 20**

Spain must do more to remove red tape and other obstacles in the way of entrepreneurship, according to the Organisation for Economic Co-operation and Development. **Page 2**

De La Rue of the UK and Giesecke & Devrient of Germany, the world's biggest private-sector banknote suppliers, are lobbying to print a bigger share of euro notes. **Page 22**

ICI, UK chemicals group, continued its move towards speciality materials with the $695m acquisition of Acheson, a Michigan-based electronic materials producer. **Page 19**

Starwood Hotels & Resorts Worldwide is restructuring itself into two separate operating groups for hotels and gaming. **Page 19**

Jack Hutchings, who founded the Fort Lauderdale-based S&H Fabricating & Engineering 25 years ago, sold his company to TI Group of the UK for £212m ($350m). **Page 19**

US home sales hit a record high last month, aided by the lowest mortgage rates in four years, unseasonably warm weather and accelerating income growth. **Page 6; Is this greed, or what? Page 17**

Reader's Digest, the world's biggest-selling magazine, is revamping its cover. **Page 24**

Coca-Cola shares gained 2 per cent, after the company said it expected first-quarter volume to rise 13-14 per cent. **Page 24; Lex, Page 18**

Mattel, the world's largest toymaker, unveiled a rival bid to that of Guinness Peat Group for the Bluebird Toys. **Page 26**

Indonesia pledged to privatise seven state enterprises and sell additional shares in five partially privatised enterprises in the next year. **Page 18**

In Japan tomorrow, commissions on equity trades over Y50m ($384,000) will be liberalised, echoing the UK financial market reforms of 1986. **Page 8**

First Pacific, one of Asia's biggest conglomerates, has seen US$438.6m sliced off its net assets as a result of the regional currency crisis. **Page 23**

New Zealand's balance of payments position is deteriorating, reflecting heavy reliance on trade with Asia which has been taking 37 per cent of its exports. **Page 8**

Midi Television, a consortium 80 per cent owned by black South African investors and 20 per cent by Time Warner of the US, has won an eight-year licence to run South Africa's first privately owned terrestrial television channel. **Page 22**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 41

Turkey warns EU over Cyprus

Inclusion of Greek Cypriot government in enlargement talks is the 'first step towards escalation in Mediterranean'

By Michael Smith in Brussels

The European Union received a warning from Turkey yesterday not to start membership talks with Greek Cypriots, as the process was formally launched to enlarge the EU into a 26-nation bloc of 500m people.

Ismail Çem, the Turkish foreign minister, said an EU decision to start talks with the internationally recognised Greek Cypriot government of Cyprus was the "first step towards escalation in the eastern Mediterranean, which can be very dangerous".

"We once again call upon the EU to evaluate its future steps very carefully before it is too late and before the Greek Cypriot administration paves the way towards another war in the island," he said at a press conference.

Cyprus adopted a conciliatory tone. Ioannis Kasoulides, foreign minister, said EU entry should remain open to all countries including Turkey if they respected EU principles. Entry negotiations would act as a catalyst to a political solution in Cyprus.

The Cyprus exchange was a rare sour note on a day in which the foreign ministers of the EU's 15 members and 11 aspirant members were celebrating the start of the union's biggest enlargement since its formation with six member states 40 years ago. Robin Cook, UK foreign minister, whose country holds the EU's rotating presidency, said that "by enlarging the EU we are finally overcoming the cruel and unnatural division of our continent".

He added: "We are creating the conditions that will help prevent a return to the terrible suffering and destruction Europe has known this century."

Turkey's anger follows the EU's rejection of its membership application and its decision to start talks with the Greek Cypriot government as the recognised administration.

The island has been divided between the Turkish and the Greek Cypriot zones since Turkey invaded northern Cyprus in 1974. No country except Turkey recognises the self-proclaimed Turkish Cypriot state in the north.

Cyprus joined 10 eastern and central European nations at yesterday's accession launch. It is one of six nations at the front of the queue to join the EU and, along with Poland, Hungary, the Czech Republic, Estonia and Slovenia, will start entry talks today.

The other five - Slovakia, Latvia, Lithuania, Romania and Bulgaria - will have to make further efforts to improve their economies and take on the obligations of EU membership, while Slovakia will have to improve its human rights record. In theory they will be able to overtake the favoured six in joining the EU.

Valdis Birkavs, Latvian foreign minister, said his country had "no intention of hanging around" and expected to be taking part in "fast track negotiations" next year. Slovakia's Jozef Kalman, said his country too hoped to start accession negotiations next year.

Klaus Kinkel, German foreign minister, said enlargement was a historic obligation of the EU. Decades ago, western European countries had exhorted east European states to cast aside communism and Marxism "and come and follow our path", he said. "Now the path is free."

Observer, Page 17

All together: European foreign ministers meeting in Brussels yesterday to discuss the eventual enlargement of the European Union into a 26-nation bloc of 500m people. From left to right: Hungary's Laszlo Kovacs, Klaus Kinkel of Germany, Poland's Bronislaw Geremek, France's Hubert Vedrine, Robin Cook of the UK and Hans Van Mierlo of the Netherlands

Norway backs plan to cut oil output

Opec draws more producer nations into scheme aimed at stabilising markets by cutting 2% of the world's supply

By Robert Corzine in Vienna and Tim Burt in Stockholm

Norway, the world's second biggest oil exporter after Saudi Arabia, yesterday signed up to a global plan to cut crude production, lending further credibility to the scheme to stabilise jittery world oil markets.

The 11 members of the Organisation of Petroleum Exporting Countries were meeting in Vienna last night to try to push through their own package of cuts, expected to amount to about 1.25m barrels a day.

Backers of the scheme hope to remove just over 2 per cent of the world's supply of around 75m b/d. Five non-Opec countries - including Mexico and Norway - would contribute 270,000 b/d to the proposed total of about 1.5m b/d.

Norway yesterday said it would reduce output this year by 100,000 b/d, or about 3 per cent, as its contribution to the plan. Its overall production for 1998 is expected to fall from 3.6m b/d to 3.1m b/d, including yesterday's proposed reduction.

Last week, Saudi Arabia, Mexico and Venezuela agreed on a collective 600,000 b/d cut, as a base for a broader reduction by Opec and non-Opec producers.

They have seen their revenues slashed by billions of dollars in recent months as a global surplus has sent oil prices tumbling 40 per cent to nine-year lows.

Marit Arnstad, Norway's oil minister, said western Europe's largest oil producer "wanted to contribute to stabilise the energy market".

"There could be a floor for oil at under $10 a barrel if no measures were taken," she said. Prices last year averaged more than $19 a barrel for the North Seas's Brent Blend and are now around $15.50.

For the first time in Opec's history, Mexico, one of the leading exporters that has refused to join the organisation, appeared at the conference with observer status.

Opec delegates in Vienna yesterday said the contribution of important non-Opec producers such as Norway and Mexico boded well for the scheme's success.

"They realised that the conditions are such that Opec could not have done it on its own," said one Gulf Arab official.

But Opec delegates conceded that no one knew if the proposed cut would be enough to eliminate the current oil glut caused by from the Asian crisis, a mild northern winter, higher Iraqi exports and an ill-timed Opec decision last November to increase output.

Opec ministers strove yesterday to adopt a common, optimistic line, in contrast to their usual fractiousness.

In another departure from normal Opec practice, it was clear many ministers were hoping to conclude the final details of the package in one day.

Saudi Arabia, Opec's dominant member, appeared especially keen to keep the meeting as brief as possible in order to project a sense of decisiveness, and to avoid raising uncertainties that might undermine prices.

Fujisawa to take Y75bn charge to quit US generics

By Paul Abrahams in Tokyo

Fujisawa, the Japanese pharmaceuticals company, is to take a Y75bn ($580m) exceptional charge to cover the costs of ending its disastrous nine-year foray in the US non-patented drugs market.

The Osaka-based group said yesterday it expected its parent company to post a net loss of Y37bn in the fiscal year ending today, after taking a Y46bn extraordinary charge. It would also draw down Y28.6bn of provisions it had already made. The company undertook to maintain the dividend at Y3.75 per share.

Fujisawa said it would sell its generics operations to American Pharmaceutical Partners, a subsidiary of VivoRx Pharmaceuticals, a California-based company. Terms for the business, that had sales last year of just $77m, were not disclosed.

Toshihide Yoda, pharmaceuticals analyst at ING Barings in Tokyo, said he expected the sale of the subsidiary, formerly known as LyphoMed, had raised between $100m and $150m.

In 1989, Fujisawa paid $750m to acquire Chicago-based LyphoMed. The Japanese company said yesterday the business had never made a profit during its ownership. This is despite the fact that the US Generic Pharmaceutical Industry Association said during the mid-1990s that US generic companies were capable of generating margins of between 10 and 20 per cent.

Fujisawa's efforts to internationalise were made partly to offset an increasingly difficult domestic environment. Japan's ministry of health and welfare has repeatedly imposed big drug price cuts to contain healthcare costs. Tomorrow, the average price of medicines in Japan will be slashed a further 9.7 per cent. Fujisawa warned yesterday that its parent company sales this financial year would be Y214bn against a previous estimate of Y220bn.

The group said it would continue to develop its patented drugs business in the US which last year had sales of $230m, thanks mostly to its immuno-suppressant Prograf and Adenoscan, an imaging agent.

A number of other international pharmaceuticals companies which dashed into the US generic market have since retreated. In August last year, Hoechst, the German group, sold one of its generics businesses and indicated it wanted to dispose of two others.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8791.09	(-4.99)
NASDAQ Composite	1819.76	(-3.86)
Europe and Far East		
CAC40	3800.23	(-10.00)
DAX	5009.76	(-73.40)
FTSE 100	5911.9	(-27.4)
Nikkei	16,263.04	(-476.22)
US Lunchtime RATES		
Federal Funds	5.68%	
3-mth Treas Bills: Yld	5.245%	
Long Bond	102	
Yield	5.975%	
OTHER RATES		
UK: 3-mo Interbank	7½%	(7½%)
UK: 10 yr Gilt	109.4375	(109.484)
France: 10 yr OAT	104.07	(104.30)
Germany: 10 yr Bund	107.80	(108.09)
Japan: 10 yr JGB	109.33	(109.23)
NORTH SEA OIL (Argus)		
Brent Dated	$14.26	(14.91)

GOLD		
New York: Comex		
	$301.5	(303.1)
London:		
	$302.75	(304.05)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.678	
DM	1.84655	
FFr	6.1859	
SFr	1.5205	
Y	132.145	
London:		
£	1.6774	(1.6829)
DM	1.8446	(1.8279)
FFr	6.1819	(6.1275)
SFr	1.5176	(1.4985)
Y	132.14	(130.335)
Tokyo Close		Y 130.45
Sterling		
DM	3.0941	(3.0762)

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WORLD NEWS
EUROPE

Spain must cut the red tape, says OECD

By David White in Madrid

Spain needs to take bolder steps to reform its labour market and remove red tape and other obstacles standing in the way of entrepreneurship, according to the Organisation for Economic Co-operation and Development.

Its report on Spain said long-standing structural problems must be tackled to enable the country to perform successfully within the European Union's single-currency zone and close the gap with its wealthier partners.

Its forcefully stated conclusions provide ammunition for proponents of a tougher line on structural reforms within José María Aznar's centre-right administration.

The OECD urged the government not to miss the "window of opportunity" provided by the current phase of rapid economic growth – officially forecast at 3.7 per cent this year – and gains in real wages.

Labour rigidities were "the root cause of an inordinately high unemployment rate", still just over 20 per cent. "Labour markets could be more important in deterring entrepreneurial activity in Spain than in other countries," the report said.

The cost of dismissing workers in Spain remains among the highest of the 29 OECD countries, despite a pact agreed last year to reduce the fixed rate of redundancy compensation in new employment contracts.

The report called for a reduction in firing costs for the two-thirds of the workforce with permanent contracts signed under the previous rules.

The government, halfway through its four-year term and buoyed by strong growth and the prospect of joining the European economic and monetary union (Emu), is so far taking a cautious line on further labour reform. It is concentrating mainly on plans to create jobs through part-time work and trying to avoid picking a quarrel with trade unions.

But the OECD said reform is "indispensable" and the government should be more ambitious. More flexible labour rules would make it easier and cheaper for companies to take on the risks of entering new markets and respond to changes in demand, it argued.

The OECD also attacked the "particularly lengthy and complicated process" of starting a new business in Spain, which it says undermines innovation.

Starting a business involves at least 13 or 14 steps, and each step involves an average of four separate pieces of documentation and six different agencies, it said. In total, the legal requirements are reckoned to take between 19 and 26 weeks. "In contrast it takes around half a day to establish a new enterprise in the US," the OECD pointed out.

It said small and medium-sized companies have found finance costly and difficult to obtain, with a relatively undeveloped venture capital market. "Very little venture capital funding is flowing into early stage investments."

SPD push for battle honours enters a dangerous phase

Its 'Magdeburg model' government is under threat because of a poor showing by the Greens, reports **Peter Norman**

Lower Saxony, Schleswig-Holstein, Saxony-Anhalt – the north German states roll off the tongue like the battle honours of an 18th-century field marshal.

Gerhard Schröder, the Social Democratic party's candidate to challenge Helmut Kohl in next September's national election, would be less than human if he did not see the SPD's March 22 success in the Schleswig-Holstein municipal elections as a further step to returning his party to power at national level after 16 years in opposition.

But with the campaign now switching to eastern Germany and the April 26 state election in Saxony-Anhalt, Mr Schröder and the SPD are entering a potentially dangerous phase in their drive to dislodge Mr Kohl's centre-right coalition.

The SPD has no problem with its popularity ratings at this stage of the Saxony-Anhalt campaign. Recent polls show the party received a boost from its victory in the March 1 Lower Saxony state election and the subsequent selection of Mr Schröder as chancellor candidate.

The latest poll, produced by the Forsa organisation for the newspaper Die Woche last Thursday, gave the SPD 42 per cent support among voters who had made up their minds, against 34 per cent in the 1994 state election. Backing for Mr Kohl's Christian Democratic Union fell to 22 per cent from 34.4 per cent four years ago.

But there is a poison pill in the form of the peculiar nature of the SPD-led government in Saxony-Anhalt and the mixed fortunes of the smaller parties in the Magdeburg legislature.

Reinhard Höppner, the SPD state premier, has governed for the past four years with a minority coalition of SPD and Greens "tolerated", or given support informally, by the Party of Democratic Socialism (PDS), the revamped former east German Communist party.

Against expectations, Mr Höppner's "Magdeburg model" government has proved remarkably stable. But this equilibrium is under threat because of the poor showing of the Greens, losing support to the SPD.

The environmentalist Green party, weak throughout the new Länder, scraped into the local legislature four years ago with just 5.09 per cent of the vote.

After the Greens' disastrous party congress in Magdeburg in early March, which alienated potential voters by promising to triple gasoline prices in 10 years, Forsa put their support in Saxony-Anhalt at only 4 per cent. The Greens will have problems clearing the 5 per cent line needed to enter the next state parliament.

The PDS are faring better, possibly because unemployment in Saxony-Anhalt averages more than 23 per cent, the highest of any German state. Surveys at the beginning of March suggested the party would win perhaps 16 per cent of the state vote. Forsa most recently put PDS support at 22 per cent, ahead of the 19.9 per cent gained in 1994 and level pegging with the CDU.

Gerhard Schröder and his wife Doris after his re-election as premier of Lower Saxony yesterday Reuters

Much could change between now and April 26. The Forsa poll could be too flattering for the SPD, and indeed Mr Schröder has warned state party workers not to be complacent.

The Free Democrat party, at present with about 3 per cent support, could stage a late recovery as in Lower Saxony, where it narrowly missed crossing the 5 per cent line. About 36 per cent of voters are still undecided.

But the SPD has to face the possibility it may emerge as the strongest party in Saxony-Anhalt without a majority and without its Green coalition partner, and hence more dependent than before on the PDS.

That would deliver a consolation prize to Christoph Bergner, the local CDU leader, whose hopes of forming a "grand coalition" with the SPD look certain to be frustrated in the short term.

An SPD government tolerated by the PDS would enable Mr Bergner and Mr Kohl in the general election campaign to play on voters' fears that the "Magdeburg model" could be replicated nationally and bring crypto-communists close to power in Bonn.

Rüdiger Fikentscher, SPD chairman in Saxony-Anhalt, says his party would have a moral right to stay in government if it raised its share of the vote and even if its Green coalition partner failed to re-enter parliament.

If the PDS share of the vote fell, that, in his view, would be a sign the SPD could defeat Mr Kohl nationally without kow-towing to the PDS, because the former communists have only a tiny following outside eastern Germany.

Mr Fikentscher made his calculations before the recent upsurge in PDS support and before Petra Sitte, the PDS candidate, said her party expects more than mere "toleration" if it is to keep Mr Höppner in office. She wants a formal "toleration contract" with the SPD and the dismissal of Klaus Schucht, the state's pro-business economics minister.

These local issues risk becoming tangled in national politics because the state election is the only big test of voter opinion in eastern Germany before the general election.

Although Mr Schröder's campaign is running well at present, the "Magdeburg model" could boost Mr Kohl's hopes of a successful fightback.

That is unless the SPD in Saxony-Anhalt can neutralise any negative fallout from next month's election result by engaging in protracted talks on the formation of a government in the state until after the September 27 general election.

France to swap Ecu bonds

By Samer Iskandar

The French treasury yesterday announced an Ecu18bn bond exchange programme that should result in a more efficient debt market ahead of January's introduction of the European single currency.

The programme will aim to retire eight older issues of Ecu-denominated bonds which had become illiquid – less easily traded – because their structure was no longer in line with market conditions. These would be replaced by four larger, more liquid, issues.

Six issues of bonds maturing between April 2000 and April 2003 will be exchanged into two issues maturing in July 2000 and July 2002. The older bonds paid coupons of between 6 per cent and 10 per cent. The new ones will pay annual interest at 4 per cent and 4.5 per cent, in line with current medium-term yields.

Three issues of longer-term bonds, with maturities between 2003 and 2006, will be exchanged into two issues maturing in 2003 and 2008.

The four resulting benchmarks will also be merged with existing bonds in French francs which will be redenominated in euros next year. France was among the first EU countries to announce it would convert its Ecu debt into euros at a rate of one Ecu to one euro.

Investors will have 10 days from today to submit their bonds to the offer, which is handled by 18 banks led by Morgan Stanley and Paribas.

Regular bond issuers, including private-sector borrowers and multilateral institutions such as the World Bank and European Investment Bank, are increasingly launching large deals to reduce borrowing costs. Investors are often willing to accept lower yields in exchange for liquidity, which allows them to buy and sell more easily.

Large issues can also be more easily stripped – the process where annual coupons are separated from the principal repayment and traded as distinct securities.

Swiss move on Portuguese case

By Clay Harris in London and Peter Wise in Lisbon

Switzerland's federal banking commission has closed Paramount Securities & Trust Company, which held a controlling stake in Paramount Portugal, an unauthorised share sales operation shut last year by the Portuguese financial regulators.

Portuguese investigators believe Paramount took at least \$15m from international investors by selling US shares that turned out to be worthless or have little value.

The Swiss commission said Paramount, based in Fribourg, had "violated rules on the conduct of trade in a crass manner".

The Swiss action came as Portugal's police took the unusual step of publicly rebutting a local press report that David Lowry, a British man held in jail in Lisbon without charge for almost a year, was once an agent for the US Federal Bureau of Investigation. Mr Lowry, the managing partner of Paramount Portugal, is under investigation in a case of falsification and fraud that caused heavy financial losses.

The UK ambassador in Lisbon has written three letters to Portugal's justice minister expressing concern over how long Mr Lowry, who denies any wrongdoing, has been held without charge and over his medical condition.

Under Portuguese law, the public prosecutor's office has 12 months to bring charges. The deadline in this case is understood to be April 22. Mr Lowry's supporters also say he is being held in overcrowded conditions, sharing a cell with 14 others.

NEWS DIGEST

SWISS GOLD TRANSACTIONS

Report on wartime trade with Germany delayed

The Swiss government has delayed for several weeks a sensitive report on the country's gold transactions with Nazi Germany during the second world war. The report, by a group of international historians, has been completed and was supposed to have been released on April 6. However, the Swiss Federal Council has requested that publication be delayed to allow translation into French, Italian and English.

Normally, all official reports are translated into Switzerland's three main languages (German, French and Italian). It had always been assumed that the report would be published in English because of the widespread interest abroad in the activities of the Swiss National Bank, which handled over three-quarters of Germany's overseas gold operations during the war.

The Swiss government stressed that the delay had nothing to do with recent moves to finalise a global settlement of Holocaust-era issues related to the big three Swiss banks.

There is growing pressure in the US to involve the Swiss government, and the Swiss National Bank, in any global settlement. **William Hall, Zurich**

FIFA PRESIDENCY

Blatter announces candidature

Joseph "Sepp" Blatter, general secretary of Fifa, yesterday formally announced his candidature for the presidency of soccer's governing body, paving the way for a fierce battle for the sport's biggest job. Mr Blatter, 62, made the announcement at a press conference, flanked by Michel Platini, the former French international player who is co-president of the 1998 World Cup organising committee.

Mr Platini, who wants players, coaches and referees to take an active part in the statutory management of the game, stands to become executive sports director of Fifa in the event of a Blatter victory. Yesterday's developments set the scene for a full-blooded contest for the Fifa presidency with Lennart Johansson, president of Uefa, European football's governing body, in the run-up to the next World Cup in June and July. Mr Johansson claims the support of most of Uefa's affiliated associations. **David Owen, Paris**

WORKING HOURS

48-hour limit sought for 5.5m

The European Commission yesterday signalled its determination to limit the working hours of more than 5.5m workers, including trainee doctors and employees in the air, rail and road, sea fishing and offshore sectors. It has concluded that the exclusion of whole sectors from legislation on working time affecting most other workers is no longer justified. The working time provides for a maximum working week of 48 hours and four weeks' annual holiday.

Launching its second phase of consultations on excluded sectors yesterday, the Commission said the basic principles of the working time directive should be extended to all non-mobile workers, including those in transport and sea fishing. However, some groups, including offshore workers, would need sectoral legislation, which the Commission hoped could be negotiated by employers and unions. **Michael Smith, Brussels**

SLOVAKIA

Forex rules liberalised

Slovakia introduces new rules tomorrow freeing domestic companies of the obligation to sell their foreign currency to local banks and permitting individuals to buy or sell any amount of foreign currency. The new rules also suggest that Slovak companies and individuals will be free to trade securities issued by companies in OECD countries.

But Vladimir Zlacky, an analyst at ING Barings in Bratislava, points out that this particular clause is "so vaguely worded" that it is unclear whether trade in such securities will have to be conducted on the Bratislava bourse – implying that OECD-based companies will have to list their shares locally before Slovaks can invest in them.

Analysts in Bratislava are not expecting the new foreign currency regime to have an immediate impact on the Slovak koruna, which is fixed to a D-mark/dollar basket and regarded by many economists to be overvalued. Mr Zlacky said: "We do not believe that devaluation expectations are so severe that Slovak companies will start hoarding foreign currency." **Joe Cook, Prague**

POLISH COPPER

Solidarity calls strike

KGHM, Poland's listed copper company which accounts for around 3.5 per cent of world production, yesterday saw the Solidarity trade union at Rudna, the combine's largest copper ore mine, call a strike to halt a restructuring programme aimed at cutting costs.

The strike decision was announced after a ballot last week which saw an overwhelming majority of the mine's 4,400 employees vote for a stoppage. KGHM currently employs 20,000 people while Rudna, the largest of the company's three mines, accounts for around 40 per cent of KGHM's copper ore output.

The KGHM restructuring strategy is crucial to maintaining the company's profitability in the face of weak world copper prices. The protest at Rudna was sparked by the planned transfer of 23 miners to a mine construction affiliate. Yesterday the KGHM stock price on the Warsaw bourse fell by 4 per cent in anticipation of the strike call. The company reported a 485m zloty (\$142m) net profit last year. **Christopher Bobinski, Warsaw**

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Communist-led left fails to clinch majority in Ukraine

By Charles Clover in Kiev

The political deadlock that has impeded economic reform in Ukraine showed little sign of being broken yesterday after elections that failed to provide a clear-cut majority for any party.

As of yesterday afternoon, with most results in, eight parties appear to have gained more than 4 per cent of the vote, a threshold that entitles them to split 225 of the 450 seats in parliament by proportion.

The other 225 seats went to elected individuals, and 114 of these were candidates with no party affiliation.

The official results of the election will be declared today.

The Communist party appears to have won at least 100 seats overall, with 37 deputies individually elected and another 70-80 elected in proportional voting.

The Communist party's allies, the Socialist-Peasant bloc, appear to have won about 15 seats in proportional voting and seven individual seats.

This means that the Communist-led left has gained ground on its previous total of 112 seats but has not achieved a majority.

Together with smaller left-wing parties whose members were elected individually, the left appears to have taken about 40 per cent of the seats in parliament.

It will therefore have to form a coalition with the centre or with nationalists, as it has in the past, in order to present a threat to the reform programme of President Leonid Kuchma.

Other parties that appear to have surmounted the 4 per cent threshold include the Popular Democratic party, essentially the government party; the pro-government Green party, which succeeded because of an immense advertising budget and the perception that it is politically neutral; and the Agrarian party, a left-leaning rural party that for the time being is pro-government.

Also passing the threshold were the Social Democratic party, a centrist vehicle for Leonid Kravchuk, the former president, and Yevhen Marchuk, the former prime minister; Hromada (Community), an opposition party led by Pavlo Lazarenko, the former prime minister who is a sworn opponent of the president; and Rukh, the nationalist party that has its power base in western Ukraine.

The left's position might be strengthened if it forms a coalition with Hromada, which is made up primarily of commercial interests from the Dnipropetrovsk region in eastern Ukraine and is fiercely opposed to President Kuchma. Hromada appears to have exceeded expectations and gained about 6 per cent of the vote, giving it roughly 30 seats overall.

International observers were satisfied with the fairness of the election process, though many noted pervasive open voting – voters filling out ballots in public – especially in rural districts.

Communist leader Petro Symonenko claims success — Reuters

Emu entry could bring a new house price boom to Britain

If the UK adopts the euro, some analysts foresee a return to the soaring prices of the 1980s, writes Christopher Brown-Humes

€ **Preparing for Emu**

Would adopting the European single currency set off a new boom in house prices in Britain? Those with memories of the roller-coaster ride in the late 1980s and early 1990s, when prices first soared and then crashed, would probably hope not.

But some commentators believe the low-inflation and low-interest rate environment at the heart of the economic and monetary union (Emu) will put real momentum behind the housing market. Simon Briscoe, economist at Nikko Europe, says: "We could have many years of a strong housing market if the UK joins".

Something of this effect is already apparent in Ireland, which is set to join Emu when it starts next January. House prices have been rising strongly, led by 30 per cent annual growth in parts of Dublin. A buoyant economy and lower interest rates have helped.

Expectation of a similar boom in the UK partly reflects the market's structure. The UK has higher owner-occupation rates, higher mortgage debt levels and a greater numbers of mortgages tied to variable rates than other European countries. That makes home-owners more exposed to short-term interest rate movements.

While Germany has owner-occupation of 40 per cent, and France 54 per cent, the UK figure is about 67 per cent. While some 80 per cent of mortgage debt is variable in the UK and Ireland, less than 10 per cent is in Germany and the Netherlands.

Inevitably, European monetary policy will not be set with particular sensitivity to the UK mortgage market. That means that if the UK economic cycle is out of step with the rest of Europe – as now – the low interest rates needed to drag continental economies out of recession could lead to surging UK house prices.

Alternatively, sharply higher interest rates could push mortgage defaults and repossessions through the roof. But Fionnuala Earley, a senior economist with the Council of Mortgage Lenders, rejects suggestions that a boom in the UK market is inevitable.

'Low inflation and interest rates at the heart of Emu will put real momentum behind the housing market'

She believes the UK is unlikely to join Emu and adopt the euro unless there is convergence, and suggests that permanently lower inflation will stop people buying houses, as they have done in the past, as an inflation hedge.

"More fixed-rate mortgages, lower levels of gearing in the housing market and sober lending criteria are more realistic expectations than a housing market boom," she says.

Fixed-rate mortgages have become more common in the UK in the last two years. This is because long-term interest rates, against which fixes are arranged, have fallen below the short-term rates that determine variable ones – a trend largely linked to the imminence of Emu.

Bradford & Bingley, the UK's second largest building society, reckons about 40 per cent of new mortgages are done on a fixed-rate basis at the moment. At Yorkshire Building Society, the level is even higher at 85 per cent.

But variable rates are still the main influence on the market as fixed rates generally last for only two to five years and there are usually lock-ins at variable rates thereafter. A CML survey last year showed that only 13 per cent of all loans by number and 19 per cent by value are fixed.

Some commentators expect the trend towards fixed-rate mortgages to gain momentum as UK membership of Emu approaches. "The classic British variable rate mortgage will substantially diminish," Graham Bishop, an adviser to Salomon Brothers International, told a conference in London last week.

Others believe that savings behaviour will also have to change. Mike Blackburn, chief executive of Halifax, the UK's biggest lender, says: "The big call is, are you going to have savers prepared to tie up five-year funds, against which you are lending five-year fixed-rate mortgages? This is a total mindset change. The shift in the UK will be slow and progressive, rather than fast and spectacular."

But even if fixed-rate mortgages do not take off, there are other ways in which a government could dampen a housing market boom. These include fiscal tightening and boosting the supply of new housing.

The big uncertainty is whether Emu will increase cross-border competition. Certainly, many UK lenders would expect to be active in the European market early next century. They include Halifax and Abbey National, the two biggest mortgage lenders, and Woolwich, which already has operations on the ground in France and Italy.

Equally, there might be opportunities for European lenders in the UK, particularly if there were a marked interest rate differential between sterling and euro loans.

So far, a number of factors have prevented a cross-border market developing, including tax differences, administrative systems and property law. Most European lenders also have weak distribution networks outside their own country.

However, increased emphasis on direct selling and technological advance, including the internet, is likely to speed up cross-border activity.

ROMANIA: PRIME MINISTER RESIGNS

Ciorbea quits as coalition parties rebel

By Kevin Done,
East Europe Correspondent

Romania's prime minister, Victor Ciorbea, tendered his resignation last night, deepening the country's political crisis, as leaders of his own party withdrew their support from him.

"I chose the unilateral solution to end this crisis," Mr Ciorbea said in a televised address to the nation after he chaired a final cabinet meeting. "Today I submitted my resignation to the head of state [President Emil Constantinescu]."

Gavril Dejeu, interior minister, was appointed as caretaker prime minister. Ion Diaconescu, who is the head of Mr Ciorbea's National Peasants party, said earlier that the party would accept the prime minister's decision to resign if he were to offer it. He acknowledged that a change of government was unavoidable.

Mr Ciorbea had been under growing pressure to resign. Many of the parties within the governing coalition had begun to blame him for the government's inability to implement promised economic reforms.

Sorin Dimitriu, the head of the State Ownership Fund, admitted last week that there had been no important privatisations so far this year, above all because of the governing coalition's preoccupation with its own internal divisions.

The Liberals and the Democrats, the strongest critics within the coalition, had both said that they would vote against this year's state budget in coming weeks, removing the coalition's overall majority, if the prime minister refused to resign.

The centre-right government, which was elected in November 1996 amid great hopes that it could finally bring the country on to the fast track of reforms after years of stagnation, has been paralysed in recent months by bitter infighting.

International concern has been growing, and a team from the International Monetary Fund expressed concern at the weekend about the impact that the political crisis was having on the pace of reform. Mr Constantinescu, who has struggled in recent weeks to maintain the Ciorbea administration in office, is expected to start talks shortly on forming a new government.

The latest crisis was triggered in January by the Social Democrats, the second largest coalition party, which is led by Petre Roman, himself a former prime minister. Mr Roman had given Mr Ciorbea until the end of March to leave office. He blamed him for failing to push through tough reforms.

At the weekend the Liberals called for Mr Ciorbea to step down ahead of the expected debates in parliament over the long-delayed 1998 budget.

The Social Democrats withdrew their ministers from the cabinet last month. The party said that it was planning to lodge a motion of no-confidence against the government, asking that it should be replaced by "a stable, efficient and credible government".

Both the Liberals and the Social Democrats in the coalition government have tied their support for the 1998 budget to Mr Ciorbea's resignation. The IMF has called for a coherent economic policy framework aimed at stabilising the economy and greatly reducing inflation. It is seeking acceleration in structural reforms aimed at reducing the losses in the enterprise sector and strengthen the banking sector.

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EUROPE

A breathing space for Yilmaz in stand-off with Turkey's army

By Kelly Couturier in Ankara

Yilmaz: accepted military's anti-Islamist measures — Reuters

Mesut Yilmaz, Turkey's prime minister, has secured a breathing space for his nine-month-old minority government by accepting military demands for new measures against Islamic radicalism.

Mr Yilmaz's coalition had been weakened in a weeks-long stand-off with the armed forces over how to wage a struggle against what the military views as religious fundamentalism.

But there are no indications that Turkey's staunchly secular army commanders, who helped push Turkey's first Islamist-led government of the modern era out of power last year, plan to abandon their ever closer involvement in running the country.

Analysts said a statement after last Friday's meeting of the National Security Council, which groups top military and political leaders, reflected the military's determination to see the government follows the army's strategy – and not the softer line Mr Yilmaz had advocated of late – to root out fundamentalism.

"In fighting reactionary religious movements targeting the secular regime, existing laws should be implemented without concessions and new draft laws should be rapidly passed by parliament," the statement said.

It added that the fight against radical Islam would be carried out within the rules of democracy, quelling rumours that the military, which staged three takeovers between 1960 and 1980, was prepared to intervene directly once again.

Analysts said the generals would closely monitor the government to ensure it followed through with a package of anti-fundamentalist measures announced by Mr Yilmaz last week. These include new legislation to control more closely the activities of organisations suspected of supporting or promoting radical Islamist thought, and to make it easier to fire civil servants with known ties to Islamist groups.

The measures also provide for stiffer penalties for those who violate secular dress codes by wearing Islamic-inspired attire, such as headscarves in public buildings.

Many of the proposals announced by Mr Yilmaz require approval by parliament, which may prove to be an obstacle given the coalition's lack of a parliamentary majority and the presence in the assembly of a newly formed Islamist party, the Virtue party. Virtue regroups most members of the Islamist Welfare party, banned earlier this year, and is currently the strongest party in parliament.

Deniz Baykal, leader of the leftwing Republican People's party, which has supported the coalition from the outside, pledged last weekend to continue to back the government as it tries to push through its anti-fundamentalist proposals.

However, Mr Baykal is reported to have made his promise of continued support conditional on the setting of a date for early elections, newspapers said.

The military is said to oppose polls before the scheduled date of 2000 out of concern that the political Islamist movement may make gains. Welfare came top in the 1995 elections, winning 21 per cent of the vote.

Army generals have complained recently that Mr Yilmaz, his eye apparently on early elections as well, has begun wooing the Islamist vote by backing away from enforcing a tighter restriction on Islamist-style headscarves in public offices and universities. The prime minister retreated from the headscarf ban after Islamist members of his party rejected it and thousands of demonstrators marched through Istanbul to protest against the measure.

French government turns down 35-hour week delay

By Robert Graham in Paris

France's Socialist-led government yesterday turned down a request from the employers' federation for a two-year delay in plans to introduce a 35-hour working week as of 2000.

But for the first time in six months there were signs of a thaw in relations between the government of Lionel Jospin, the prime minister, and the Patronat over the controversial introduction of the shorter working week.

This followed a meeting between Mr Jospin and senior cabinet ministers with Ernest-Antoine Seillière, the head of the Patronat, along with the employers' top representatives.

Mr Seillière, who assumed the leadership of the patronat in December, said "the government has refused to give us satisfaction" on delaying the introduction of the working week. He had asked for a postponement until 2002 in view of the complexity of implementing the plan.

However, he added: "The government is willing to listen and discuss with us four points of particular concern to us." These were the need to "annualise" the reduction of the working week, so that it averaged 35 hours over a full year; the position of salaried staff whose jobs were related to work objectives rather than hours worked; the role of part-time employment; and how overtime is to be calculated.

None of these issues is touched upon in the current legislation establishing the framework for cutting working hours from 39 to 35 hours.

The bill is due to complete its third parliamentary reading this week. They will only be addressed in a subsequent bill, unlikely to be placed before parliament until next year.

The treatment of these four points is crucial in determining whether France's business community begins to look upon the 35-hour week in a less negative light.

If the working week can be annualised, overtime costs held down and a flexible interpretation allowed of creating jobs via greater resort to part-time work, then the Patronat's resistance will soften.

The law before parliament obliges companies employing 20 or more employees to introduce the 35-hour week by 2000 and those with fewer employees by 2002.

Kirch, Bertelsmann reject pay-TV monopoly claim

By Emma Tucker in Brussels and Frederick Stüdemann in Berlin

Kirch and Bertelsmann, the German media groups, will tomorrow reject European Commission claims that their proposed digital pay-TV joint venture will close off the emerging German market by creating a monopoly.

At the start of a two-day hearing into the impact of the deal on competition, Kirch and Bertelsmann are expected to argue that Brussels has based its strong objections to the joint venture on "highly speculative" assumptions and has not taken all relevant factors into account.

A study carried out by Wernhard Möschel, a professor of economic law at Tübingen University, which will form the basis of Kirch and Bertelsmann's case, asserts that "the Commission's legal appreciation rests partially on incorrect assessments". It also accuses Brussels of effectively deciding to block the deal before it has understood the facts of the case.

The hearings will be attended by the Commission, Kirch, Bertlesmann and Deutsche Telekom as well as companies that have voiced objections. They form part of an anti-trust inquiry currently being conducted by the Commission into the so-called Premiere television alliance.

Under the deal, Kirch and Bertelsmann will merge their digital television business and jointly market digital television in Germany using a set-top box decoder – or d-box – developed by Kirch as its standard decoder for digital TV.

They plan to distribute their service via Deutsche Telekom's cable network.

Karel Van Miert, the EU's competition commissioner, has said that the deal as it stands cannot be allowed to go ahead, arguing that it will lead to the creation of a monopoly in Germany's pay-TV market.

However, after the hearing, the companies are expected to enter into talks with the Commission over possible alterations that could be made to the project in order to win regulatory clearance.

Brussels has until June 3 to take a decision.

Yesterday a Commission official said it was normal for companies to try to persuade the competition authorities that their assessment of a case was wrong.

'Third force' gets down to tin tacks on measures hindering advance of global farm trade

Intense negotiations are taking place between key players to come up with a unified stance, writes **Gwen Robinson**

In the dry, rural communities of northern New South Wales, a large group of foreign visitors wearing Australian bushmen's hats have been prodding sheep and tweaking sugar cane for the past two days.

As representatives of the top farm organisations in the Cairns Group of 15 agricultural exporting countries, they were meeting for the first time in Australia to speak for millions of farmers about protective measures hindering global farm trade.

Like the multilateral Cairns Group forum, the farm leaders see themselves as a "third force" between European protectionism and American free trade policies.

Before their formal talks in Sydney, the 30 or so farm leaders embarked on a study tour of Australia's vast and export-reliant agricultural industry.

Behind the camaraderie, intense negotiations were taking place between key players, including leaders of the Canadian Federation of Agriculture and Australia's National Farmers Federation, to come up with a unified stance to present to their governments.

Differences were "fairly small" and came down to priorities and time frames for abolishing or reducing tariffs and other barriers, said one member.

In the lead-up to ministerial talks between Cairns Group agriculture and trade ministers in Sydney this week, the farm leaders' meeting had a broader significance.

It highlighted growing private-sector involvement in multilateral trade issues and, in this case, Australia's international push to place abolition of farm subsidies and other agricultural trade barriers on the World Trade Organisation's negotiating table next year.

Some of the farm leaders were more enthusiastic than others to endorse Australia's call for abolishing direct and indirect support for farm exports within a certain time frame, possibly 15 years.

In their first parallel meeting to coincide with the Cairns Group ministerial talks, the farm leaders were unanimous in the wish to "send a strong message" in support of further agricultural trade reform, said Donald McGauchie, president of the National Farmers' Federation, Australia's top farm lobby and host of the industry meeting.

On the multilateral level, Cairns Group ministers will meet on Thursday to plan a negotiating strategy for the WTO ministerial meeting in Geneva in May.

Australia has lobbied the group to support two central proposals: to start international talks next year on cutting farm trade barriers, and to include the issue of agricultural protectionism in a new "millennium round" of multilateral trade negotiations under the WTO.

The WTO has scheduled a fresh round of agricultural negotiations next year, ahead of the expiry in 2000 of its existing reform programme to reduce farm export subsidies. But Australia and other Cairns Group members have argued the talks should be part of a general round of multilateral negotiations on trade liberalisation.

The Cairns Group, which includes Canada, New Zealand, Fiji, South Africa and several Latin American and Asian countries – but not the US or European Union – was established in 1986 in the northern Australian town of Cairns as an alliance to push agricultural reform in the Uruguay Round of multilateral trade talks.

John Anderson, minister for primary industries, said yesterday Australia was hoping to achieve "substantial reform". But he warned that regional economic turmoil had increased sensitivity among some Asian countries to proposals for phasing out farm subsidies and other forms of support. In the Cairns Group, Indonesia, Malaysia, the Philippines and Thailand are the Asian members.

"Many European countries are extremely reluctant, but it's not only them. Asian countries are also showing heightened concerns about food security," Mr Anderson said.

South Korea, for example, had indicated that continued subsidy of its rice production was justified in the light of food shortages in Indonesia.

"Plainly, we're looking for quite substantial agricultural reform. Australia will continue to take a leading role in arguing the case for agricultural trade reform.

"Our position is, that just as in shattered post-war economies, trade reform was one of the great steps to higher living standards and employment opportunities . . . it won't be easy but we think these (Asian) concerns can be allayed and reason will prevail."

Other challenges include the rise of "extraordinary credit arrangements" by governments to aid agricultural exports, and the discussion in Europe of "what is amazingly called the multifunctionality of agriculture," Mr Anderson said.

"If that is what Europe is moving to, they should do it in ways that don't impact on our agricultural trade."

Australia's line received strong support yesterday from Dean Kleckner, head of the American Farm Bureau Federation, the biggest farm organisation in the US.

The US is not a Cairns Group member, but Mr Kleckner joined the farm leaders' meeting to show support for their push to dismantle agricultural trade barriers.

A cattle drive in Northern Territory. Australia is a leading member of the Cairns Group which is pressing the US and European Union to accept reform of farm tariffs and subsidies Ross Bray

EU to push for Millennium trade round

By Neil Buckley in Brussels

The European Union yesterday agreed to lead calls for a broad-based "Millennium round" of global trade negotiations at the turn of the century – but did not find unanimity over proposals for bilateral trade liberalisation talks with the US.

EU trade ministers agreed to call for a "comprehensive, wide-ranging approach" to trade talks due to start at the end of 1999, at the World Trade Organisation's second ministerial conference in May.

But they limited themselves to a general declaration on the need for broad talks, without defining exactly what should be included. They said the scope of a Millennium round should be the subject of a further WTO ministerial conference next year.

Sir Leon Brittan, EU trade commissioner, said the next round should focus on eliminating remaining tariffs, and dismantling protectionist non-tariff barriers, especially in services and investment.

The WTO is already committed to further negotiations on agriculture and services but the EU is backing a more ambitious approach. Sir Leon has championed the idea of a Millennium round to build on the achievements of the 1986-1993 Uruguay round.

But US officials have so far been lukewarm on the idea of another trade round. Washington has yet to decide whether to continue to pursue its sectoral approach to trade talks, or support a new round. Asian countries including Japan and South Korea have also expressed caution.

Sir Leon also presented ministers for the first time with his proposals for talks on a "new transatlantic marketplace" with the US.

The talks would aim to create an EU-US free trade area in services and eliminate tariffs on industrial goods by 2010. They would exclude sensitive subjects such as agricultural subsidies and audio-visual services.

Many EU states backed the idea yesterday, but Hubert Védrine, French foreign minister, made clear France's opposition. France argues that bilateral talks with the US could undermine broader multilateral liberalisation efforts, and that it would be impossible to keep agriculture and audio-visual services out of EU-US talks. Jacques Chirac, French president, and Lionel Jospin, prime minister, have warned that France is prepared to use its veto to stop such talks.

Sir Leon admitted he might not be able to secure the negotiating mandate he is seeking from EU states before the next EU-US summit in May.

But Margaret Beckett, trade minister of the UK – holder of the EU presidency – said this did not mean the proposals could not be raised.

NEWS DIGEST

TEXTILES TRADE

Carpet deal clears way for EU-Russia accord

The European Union and Russia have agreed to remove all quotas on textile trade between them, as part of a broader textile agreement reached after three years of talks.

The agreement should clear the way for EU ministers to end their classification of Russia as a "non-market economy". That should make it less vulnerable to anti-dumping measures, and would boost Russia's efforts to join the World Trade Organisation.

Proposals to change Russia's status had been blocked by Belgium, in protest over import quotas on EU carpets imposed by Russia for one year from March 19.

Those quotas, and frustration at the lack of progress in textiles talks, prompted an angry letter from the European Commission to Moscow earlier this month, warning of an escalation of trade disagreements unless a textiles deal could be reached.

EU officials suggested yesterday that Moscow's recent willingness to make higher-level officials available for the textiles talks had paved the way for the agreement reached at the weekend.

The deal involves Russia removing its carpet quotas from May 1, and the EU agreeing not to renew its unilateral quotas on Russian textiles beyond that date. **Neil Buckley, Brussels**

CHINESE RAILWAYS

Big increase in investment

China is to increase investment in railway construction this year as part of a strategy to ensure that economic growth does not slip below the official target of 8 per cent. Zhu Rongji, China's new premier, announced that investment in highways, housing and railways would be raised to help stimulate the economy. Dai Xianglong, the central bank governor, said that China's fixed asset investments will would increase by between 10 to 15 per cent this year, compared with an actual 10 per cent rise last year.

A railways ministry official said China would raise spending on railway construction from a previously-planned Yn34.9bn to Yn45bn. He added that over the next five years, Yn245bn would be spent on laying railway lines. Specifically, 5,340km of new trunk lines and 1,000km of local railways are to be built, and 4,400km of track is to be electrified. Foreign investors have been permitted to take a minority equity stake in trunk rail projects since the start of this year. **James Kynge, Beijing**

PHILIPPINES PETROCHEMICALS

Naphtha cracker plan shelved

Plans to set up a $500m naphtha cracker in the Philippines have been postponed indefinitely following disagreement between the government and private sector over proposed tariffs.

A consortium of local and foreign groups – including Japan's Sumitomo and Mitsubishi – led by Chemical Industries of the Philippines has been pushing the government to raise from 10 to 20 per cent the tariff on imported downstream products such as polypropylene and polyethylene. The administration of President Fidel Ramos, which since 1992 has been committed to market-friendly reforms through deregulation, privatisation and the lowering of tariffs, has twice refused to meet the investors' demands, despite prevailing higher tariffs in Indonesia and Thailand.

The country's two downstream plants would be sufficient until the government lent its support to backward integration, said Antonio Garcia, president of Chemphil. The same consortium started a polypropylene plant in Bataan last year and is also working on a polyethylene facility. **Justin Marozzi, Manila**

CZECH HOTEL PURCHASE

Doubts over 'Libyan link'

The Maltese government has sent a stiff response to the Czech Republic following comments made by a senior Czech official regarding the recent investment by a successful Maltese hotel group in 10 hotels. A senior official suggested that the privately owned Corinthia Hotel group was Libyan-owned, prompting concerns that the deal may be in doubt.

Of concern to the Czech government is the involvement of Libya's Arab Foreign Investment Company (LAFICO) which has a 48 per cent interest in Corinthia. Corinthia fears this is an excuse to reverse the deal. An investigation by Security Information Services (BIS) has failed to come up with any connection between Corinthia, LAFICO, and the Libyan government, according to the Czech news agency CTK. **Godfrey Grima, Valletta**

Ericsson in Brazil phones contract

By Greg McIvor in Stockholm and Jonathan Wheatley in São Paulo

Ericsson, the Swedish telecoms group, has won a $360m contract to supply infrastructure for a new cellular phone network in São Paulo region being built by Tess, a Brazilian-Swedish consortium.

The concession, covering São Paulo state except for the capital city, marks the latest expansion of Brazil's fast-growing market for digital mobile phone services. It follows a court ruling last week overturning a decision by Brazil's communications ministry to strip Tess of the concession.

Tess, 49 per cent owned by Telia, the state-owned Swedish telecoms operator, won an international auction in April 1997 to operate the São Paulo mobile network.

But complaints by a rival US bidder that Tess had infringed technicalities in its application document led to the government depriving it of the licence. The Tess consortium includes the Brazilian companies Airline Cellular and Primave, part of C.R. Almeida, the construction group.

Ericsson co-operates closely with Telia and said it hoped to secure further contracts in Brazil, its fifth-largest market. Jan Wäreby, general manager for Ericsson's American-standard cellular systems, said a rapid shift was under way in Brazil from analogue mobile phone networks to more versatile digital services.

The Tess contract, for a mobile standard called D-AMPS IS-136, is one of 10 being awarded to private operators for "B-band" cellular services. These will compete with "A-band" services offered by publicly-owned networks. Five "B-band" concessions remain to be auctioned.

Concessions have so far been awarded to consortia including overseas operators BellSouth of the US, Stet of Italy and Bell Canada. "A-band" services are due to be privatised later this year, with Brazil's entire fixed phone network, and expected to raise at least $20bn.

Tess is expected today to sign the São Paulo concession contract and pay 40 per cent of its bid of R$1.33bn (US$1.2bn).

● Ericsson yesterday said it had signed a deal to provide a mobile telephony network for the Russian operator JSC Tyumenruscom, operating in the east Russian regions of Tyumen and Tobolsk.

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US fails to break Mideast deadlock

By Judy Dempsey in Jerusalem

Dennis Ross, US Middle East envoy, returns to Washington today after failing to negotiate a deal between Israel and the Palestinians over a second Israeli troop pullback from the West Bank.

Mr Ross will brief President Bill Clinton after five days shuttling between Benjamin Netanyahu, Israeli prime minister and Yassir Arafat, president of the Palestinian Authority. Yesterday, he also briefed Hosni Mubarak, Egyptian president, at the Red Sea resort of Sharm el-Sheikh.

The peace talks, suspended for more than a year largely because of Israel's settlement policy, are bogged down by Israel's continuing insistence that it will not hand over 13 per cent of land to Palestinian control. This is far below Mr Arafat's original expectations of about 35 per cent.

Israel has also said it will not go ahead with a third pullback until the start of the final status talks which will deal with Israel's borders, the future of Jerusalem, Jewish settlements and other issues.

This is despite a US commitment with Israel and the Palestinians that the three pullbacks be completed not later than the middle of this year. But Mr Netanyahu appears adamant on blocking the third redeployment to strengthen his position at the final status talks.

The preoccupation with the pullback has taken its toll on other outstanding issues spelt out in the Oslo peace accords. For security reasons, there is still no decision by Israel to open an airport and sea port in Gaza, to allow the free movement of people and goods between the West Bank and Gaza and to release Palestinian political prisoners.

For their part, as the Palestinians told Mr Ross, they are reluctant to subscribe to Israel's demands to fight terrorism without having an independent arbiter monitor the Palestinian Authority's efforts. "What else would you expect. Neither side trust each other. Confidence is zero," said a western diplomat.

Israelis and Palestinians recognise the fragility of this "status quo."

On Sunday night, a car packed with explosives blew up near the Palestinian-controlled town of Ramallah. The driver, who died, belonged to Hamas, the Islamic Resistance Movement which opposes the Oslo peace accords and which claimed responsibility for several previous suicide bombings.

Morocco to seek foreign investors

By Roula Khalaf in London

Morocco's new government plans to push harder to attract foreign investment as a way of easing social hardship without relaxing spending curbs.

The first government in Morocco to be led by parties in opposition since independence, took over this month amid high expectations for change. Morocco's economic reforms have yet to translate into benefits for the population and the new government's challenge is to accelerate growth in an economy with urban unemployment of 16 per cent.

Fathallah Oualalou, the new finance and economy minister, said the promised change would come through better management of the economy rather than a shift in economic policy.

He believes that a government more representative of the Moroccan electorate is better placed to tackle the bloated administration and reform a failing education system and inadequate justice system.

The key to the success of Morocco's agreement with the European Union, which would bring it into a free trade zone with the EU by 2010, is substituting the lost government revenue and public investment with foreign direct investment (FDI). After a more than two-fold rise in foreign direct investment last year to $1.2bn, Morocco is expecting an even larger share of FDI this year, according to Mr Oualalou. This should partly be achieved through privatisation of the telecoms sector, starting with the award of a private mobile phone licence.

Morocco's stalled privatisation programme has suffered because of disputes between the finance and privatisation ministries. But Mr Oualalou says such problems could be avoided with the arrival of a strong prime minister to arbitrate.

El Niño link to balmy weather

By Frances Williams in Geneva

The El Niño weather phenomenon, which has brought drought and floods to many parts of the tropics, also caused one of the balmiest Februarys on record in Europe and North America, according to the World Meteorological Organisation.

The northern hemisphere is much less affected by El Niño than tropical areas, so the noticeable impact this year is an indication of "how unusually strong this El Niño event is", the WMO says today in its latest El Niño review.

Warm tropical air pulled into the north produced the warmest air temperature over land since 1960, while the combined air temperature over land and sea was 0.75 degrees centigrade above normal, the biggest departure from the 1961-90 normal for any month since at least 1856. The US was also exceptionally wet, experiencing the third highest rainfall for February since 1895.

Weather experts expect the pool of abnormally warm water in the southern Pacific to shrink between now and May, with a return to normal conditions from June. However, the WMO warns that until then California and southern US states face more violent storms, while drought will persist in Indonesia, the northern part of South America, and southern Africa.

Brazil, where forest fires are burning out of control in the drought-struck north, has warned farmers in the south to be prepared for heavy rain during the harvest period from March through July.

The El Niño weather event, which disrupts normal weather patterns, occurs every few years but it appears to be increasing in strength and frequency, prompting speculation that there may be a link with global warming.

Clinton talks up Africa's prospects for investment

In urging Americans to invest in the continent, he overlooked risks involved, write **Tony Hawkins** and **Michael Holman**

If President Bill Clinton was a fund manager he would be in trouble.

Speaking in South Africa over the weekend, Mr Clinton urged Americans to put more money into sub-Saharan Africa. "The average annual rate of return on investment in Africa is 30 per cent," he said: "That's a good deal, folks."

But he failed to add the caveat that is usually obligatory when offering investment advice: the value of shares can go down as well as up, and past returns are no guide to future performance.

And if any continent should have a financial health warning, it is Africa.

But armed with the African Growth and Opportunity Bill, legislation which would give the continent's economic reformers better access to the US market, President Clinton and senior officials have been talking up Africa's prospects.

"African economies are resurging," says Susan Rice, assistant secretary of state for Africa, pointing to 4.5 per cent real growth last year, and forecasts double-digit growth at the end of the 1990s "as the private sector responds even more fervently to progressive government commercial policies".

And central to Africa's sustained recovery, argues Ms Rice, is the trade bill, which will include clothing and textiles and other items.

"It will place Africa on a dynamic economic freeway," she says, "a path Asia took in the wake of the second world war."

Yet it is far from clear that the trade incentives Mr Clinton is offering will have such a dramatic impact on the rate of African economic growth.

The main obstacles to Africa's exports, according to research studies, are not import or non-tariff barriers imposed by the developed world.

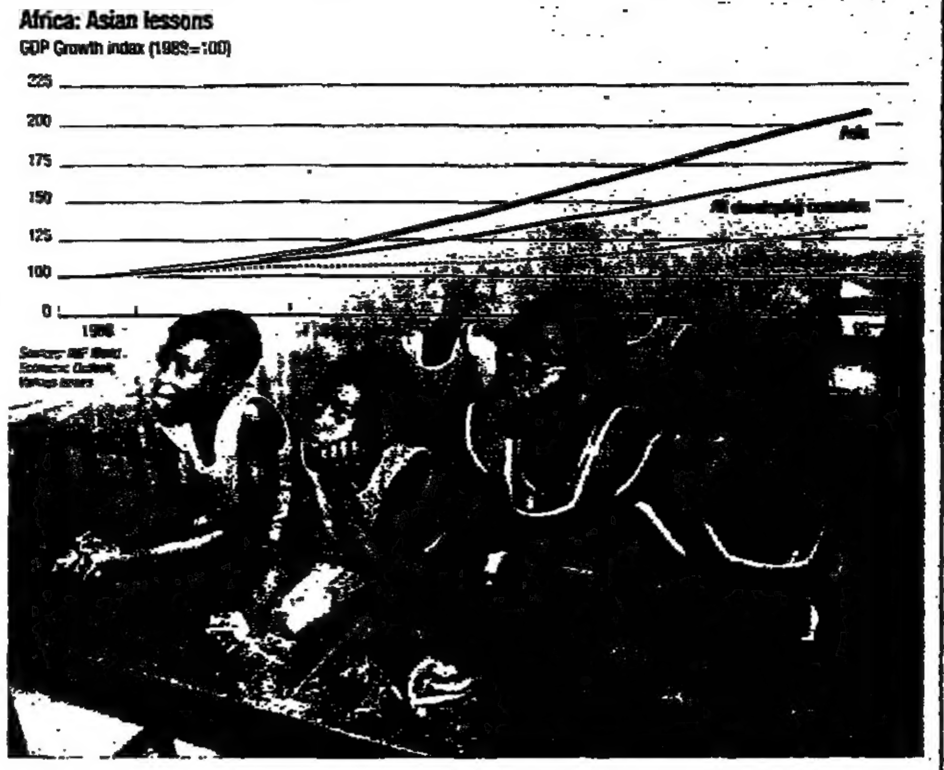
Rather they are the region's poor management, generally unreliable communications, the quality, design and reliability of supply for its exports, and weak infrastructure.

Freight costs, for example, are high: a container will cost nearly twice as much to pass through the port of Abidjan compared with Antwerp, and port costs in the Far East are even lower, while air transport rates are four times higher than in the Far East.

Meanwhile African governments have been falling behind their competitors. The protectionist policies they have imposed have been costing sub-Saharan Africa as much as $11bn a year, equivalent to the total aid to the region from developed countries in 1991, according to a World Bank research paper.

Import barriers in Africa have been far higher, according to the report, than in other developing countries and regions with faster export growth. These barriers hamper exports and economic development by adding to the cost of essential imports, such as agricultural inputs and machinery.

Nor are the relatively modest US trade incentives in the bill likely to change the pattern of foreign direct investment flows to Africa which can be expected to continue to target resource-specific opportunities – oil, gas, mining and in some countries tourism.



The Asia parallel is also misleading. A year ago, the IMF highlighted the stark contrast between sub-Saharan Africa and east Asia. Average per capita incomes in Africa halved, in relative terms from 14 per cent of the industrial country level in 1965 to 7 per cent in 1995.

Over the same period, four of Asia's newly-industrialised economies increased per capita incomes from 18 per cent to 66 per cent of industrial country levels. While other Asian economies also reduced the gap, especially in the decade to 1995.

And while a growing number of sub-Saharan economies are recovering, they are not yet growing in the sense of breaking new ground. As the World Bank has shown, if per capita incomes in sub-Saharan Africa continue to grow 1 per cent annually, they would be no higher in 2006 than in 1982, and 5 per cent lower than in 1974.

"The coming decade would only represent the recovery of ground lost over 20 years," says the Bank's 1997 Global Economic Prospects.

Furthermore, economists argue that Africa needs a sharp increase in levels of investment if growth is not to subside.

But African countries with per capita incomes of some $500 a year will not save enough to boost investment to the levels necessary, meaning that foreign capital is crucial to sustaining the higher GDP growth rates many African countries are now achieving.

In recent years sub-Saharan Africa's share of global foreign direct investment has been both tiny and declining - down to 3.3 per cent of all developing country inflows in the mid-1990s from 6 per cent in the latter half of the 1980s.

The flows are also highly concentrated, with about 70 per cent going to Angola, Nigeria, Ghana and South Africa, principally in mining.

Far from accelerating in 1998 as the White House confidentially predicts, African growth is likely to slow, reflecting the sharp fall in the price of its chief export, oil, a slowdown in foreign direct investment in the wake of the Asian crisis, and aggressive competition from Asian exporters exploiting the cost advantages resulting from currency depreciation.

And while President Clinton's visit may well succeed in raising Africa's profile with US and global investors, encouraging them to rerate Africa as an investment risk, a World Bank official offers his own health warning: "Be careful about over-optimism – don't downplay the good news, but don't oversell it".

Algerian forces kill 100 rebels

By Roula Khalaf in London

Algerian security forces have killed more than 100 armed rebels in a week-long offensive in western Algeria, a newspaper close to the government said yesterday.

The military operation, in the Ouarsenis mountain in the western province of Relizane, 270km from Algiers and site of some of the worse massacres of civilians earlier this year, began last Tuesday, according to French-language daily L'Authentique.

The latest offensive follows some of the most brutal attacks against civilians since a series of massacres in January left more than 1,000 people dead. According to security forces, armed groups slaughtered 20 adults *and 27 children* last Thursday night in the region of Djelfa, 250km south of Algiers. Women and children were reported to have been hacked to death with knives and axes. Houses were burned and four women abducted, newspapers said.

The latest killings came as France's employers federation wrapped up a three-day visit to Algiers in which it promised to step up investment *in the former French* colony.

The 14-member delegation included representatives from leading French companies and banks, including Bouygues, GEC Alsthom, BNP, and Societe Generale. Francois Perigot, head of the delegation, expressed confidence in the stability of the Algerian economy and said France's position as the Algeria's main trade partner *could* be enhanced through French investments in Algeria.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1990=100.

	UNITED STATES					JAPAN					GERMANY				
	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	220.2	−131.8	−145.6	1.1541	107.8	194.7	83.7	75.5	166.58	104.7	*254.4*	*56.8*	*40.6*	*2.0710*	*97.5*
1988	272.5	−100.2	−108.4	1.1833	100.5	218.7	79.8	67.0	151.51	115.9	*272.6*	*61.4*	*42.4*	2.0739	96.6
1989	330.2	−99.3	−94.6	1.1017	104.9	245.5	70.6	53.4	151.87	110.5	*310.1*	*65.1*	*51.5*	2.0681	95.9
1990	309.0	−79.3	−72.1	1.2746	100.0	220.0	50.0	28.5	183.94	99.9	324.6	51.8	38.3	2.0537	100.0
1991	340.5	−53.5	−4.6	1.2391	98.5	249.4	77.7	57.4	166.44	108.4	327.6	11.1	−14.6	2.0480	99.2
1992	345.9	−85.2	−43.5	1.2957	96.5	258.6	96.2	86.7	164.05	113.6	330.9	16.8	−15.0	2.0187	102.1
1993	397.3	−96.7	−77.6	1.1705	99.5	300.3	118.6	112.4	130.31	136.5	325.2	30.6	−12.2	1.9337	106.1
1994	432.3	−127.0	−112.6	1.1857	97.6	325.0	121.7	110.5	120.99	147.0	360.2	37.5	−17.4	1.9198	106.4
1995	452.3	−122.8	−99.9	1.2928	91.8	331.1	101.3	85.3	121.43	154.4	405.0	47.1	−18.3	1.8509	111.9
1996	499.0	−135.9	−118.3	1.2526	96.6	319.8	66.6	52.6	136.24	134.0	418.6	52.0	−10.5	1.8844	108.9
1997	609.0	−160.8	−147.2	1.1309	104.4	362.9	91.2	84.9	136.84	126.1	453.6	62.0	−2.7	1.9584	103.9
1st qtr.1997	140.5	−38.8	−34.1	1.1713	102.4	83.3	14.7	13.1	141.82	123.9	107.8	12.9	−5.2	1.9415	105.6
2nd qtr.1997	152.6	−36.7	−33.2	1.1386	103.8	94.2	24.9	23.2	138.15	127.1	111.7	15.3	1.2	1.9511	104.4
3rd qtr.1997	159.2	−44.1	−39.6	1.0893	105.1	95.3	24.6	22.4	128.47	131.1	117.6	17.9	−2.5	1.9672	102.3
4th qtr.1997	157.3	−41.3	−40.6	1.1245	106.4	90.7	27.3	26.4	140.91	122.2	116.4	15.8	3.7	1.9740	103.3
March 1997	50.7	−10.9	n.a.	1.1447	104.1	27.3	4.7	3.5	140.32	123.4	38.7	5.5	1.1	1.9418	105.4
April	50.7	−12.1	n.a.	1.1401	105.5	30.1	7.0	6.8	143.23	120.9	35.7	5.0	1.2	1.9509	104.9
May	50.5	−12.7	n.a.	1.1444	103.3	32.9	10.2	9.1	135.92	127.5	37.7	4.7	−1.9	1.9491	104.6
June	51.4	−11.9	n.a.	1.1312	102.5	31.2	7.8	7.3	129.31	133.1	38.2	5.6	1.9	1.9534	103.6
July	52.5	−14.2	n.a.	1.1011	103.7	32.3	7.8	7.2	126.84	133.5	38.7	5.6	−0.9	1.9722	102.1
August	54.5	−14.3	n.a.	1.0695	106.0	32.7	9.9	9.5	125.99	132.2	38.2	4.4	−3.2	1.9675	101.9
September	52.3	−15.6	n.a.	1.0974	105.7	30.3	7.0	5.8	132.58	127.6	40.7	7.9	1.6	1.9618	103.0
October	53.1	−13.6	n.a.	1.1191	104.9	33.0	10.4	10.0	135.36	126.8	38.7	4.6	−2.7	1.9855	103.3
November	50.9	−13.0	n.a.	1.1421	105.8	28.6	9.2	8.9	143.21	121.4	39.0	5.2	0.9	1.9784	103.5
December	53.3	−14.7	n.a.	1.1122	108.3	29.3	7.7	7.6	144.17	118.7	38.7	6.1	5.5	1.9781	103.2
January 1998	52.3	−16.2	n.a.	1.0673	109.6	30.4	8.1	7.5	140.80	120.0	40.4	4.2	−6.3	1.9749	102.9
February			n.a.	1.0892	108.4				137.00	123.4				1.9748	102.7

	FRANCE					ITALY					UNITED KINGDOM				
	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exch. rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1987	128.3	−4.6	−3.7	6.9265	98.9	101.0	−7.7	−1.9	1494.3	100.9	112.3	−16.4	−6.8	0.7047	99.4
1988	141.9	−4.7	−3.4	7.0354	96.9	108.3	−8.9	−5.4	1536.8	97.6	120.9	−32.3	−24.8	0.6643	105.4
1989	162.9	−6.3	−3.6	7.0169	96.0	127.8	−11.3	−10.7	1509.2	98.5	137.0	−36.7	−33.3	0.6728	102.3
1990	170.1	−7.2	−7.2	6.9202	100.0	133.6	−9.3	−12.9	1523.2	100.0	142.3	−26.3	−26.2	0.7150	100.0
1991	175.4	−4.2	−4.8	6.9643	98.3	137.0	−10.5	−19.2	1531.3	98.6	147.7	−14.7	−11.4	0.7002	100.7
1992	182.5	4.5	2.9	6.8420	101.5	137.9	−8.0	−22.6	1591.5	95.5	145.9	−17.8	−13.8	0.7359	96.9
1993	179.6	13.3	8.0	6.6281	105.0	144.9	18.1	8.7	1836.7	80.4	156.0	−17.3	−13.2	0.7780	89.0
1994	198.9	12.6	5.4	6.5659	106.1	161.4	18.8	12.0	1908.6	76.9	174.1	−14.4	−2.1	0.7736	89.2
1995	219.7	10.4	8.4	6.4460	109.2	181.0	21.6	20.7	2106.4	69.3	186.9	−14.1	−4.5	0.8190	84.8
1996	230.2	13.8	16.4	6.4068	109.1	199.2	35.4	32.7	1932.1	75.7	208.0	−15.8	−2.3	0.8026	86.3
1997	254.8	26.8	35.1	6.5925	105.6	209.2	27.2	29.1	1924.0	76.3	246.4	*−18.6*	6.5	0.6906	100.5
1st qtr.1997	59.4	4.6	6.9	6.5517	106.8	47.0	5.1	7.5	1917.8	76.9	58.5	−3.9	1.8	0.7186	96.9
2nd qtr.1997	62.8	7.5	10.1	6.5788	106.0	54.0	6.8	6.2	1924.6	76.2	61.0	−4.5	2.4	0.6960	99.6
3rd qtr.1997	66.2	7.6	8.4	6.6261	104.2	52.5	8.8	10.4	1918.8	76.0	64.1	−4.2	2.0	0.6705	102.5
4th qtr.1996	66.2	7.0	9.8	6.6134	105.6	55.6	6.5	5.1	1934.6	76.1	63.0	−6.2	0.2	0.6772	103.0
March 1997	20.1	1.4	0.9	6.5502	106.6	16.7	2.3	1.8	1937.9	75.8	19.0	−1.4	n.a.	0.7127	97.4
April	20.9	2.3	3.6	6.5715	106.3	17.8	2.1	2.2	1931.6	76.2	20.7	−1.5	n.a.	0.6997	99.5
May	20.8	2.5	3.7	6.5725	106.0	18.2	2.5	2.1	1925.6	76.2	19.9	−1.2	n.a.	0.7006	99.04
June	21.0	2.8	2.9	6.5923	105.1	18.1	2.2	1.9	1916.6	76.3	20.4	−1.7	n.a.	0.6878	100.4
July	22.1	3.2	4.1	6.6534	103.8	21.5	5.6	7.2	1920.1	76.0	22.4	−1.0	n.a.	0.6592	104.5
August	21.6	1.6	1.5	6.6309	103.6	12.8	2.6	2.1	1921.9	75.6	21.1	−1.3	n.a.	0.6670	102.5
September	22.6	2.8	2.8	6.5940	104.9	18.2	0.6	1.1	1914.6	76.2	20.6	−1.9	n.a.	0.6852	100.4
October	22.9	2.6	4.9	6.5939	105.5	20.6	3.1	−0.2	1925.4	76.2	20.8	−2.0	n.a.	0.6853	101.1
November	20.9	1.6	2.0	6.6249	105.8	17.9	2.0	0.6	1938.4	76.2	20.3	−2.3	n.a.	0.6762	103.8
December	22.4	2.6	2.8	6.6219	105.5	17.2	1.4	4.6	1939.6	75.9	21.9	−1.8	n.a.	0.6701	104.4
January 1998	22.2	2.5		6.6137	105.2			0.1	1943.7	75.4	20.4	−1.6	n.a.	0.6646	104.6
February				6.6189	105.0				1948.7	75.1				0.6638	104.7

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

CLINTON INVESTIGATION

Court move adds to probe delay

By Mark Suzman in Washington

The US Supreme Court yesterday agreed to consider whether prosecutors investigating President Bill Clinton are entitled to scrutinise notes taken by the lawyer for a presidential aide who committed suicide.

The move, which will add further to the delays affecting prosecutors' wide-ranging investigations of the president, concerns notes of a 1993 conversation between Vincent Foster, a close associate of Mr Clinton and his wife Hillary from Arkansas who became a senior White House adviser, and James Hamilton, his lawyer.

Mr Foster killed himself soon after the meeting, and Kenneth Starr, the independent counsel leading investigations into the White House, subpoenaed the documents in 1995. However, Mr Hamilton has refused to hand them over, arguing that the record of the talk remains protected under attorney-client privilege.

Mr Starr says Mr Foster would have been a key witness in the investigations and that the notes contain factual information which would have been given in testimony to the grand jury. In criminal cases such notes are normally allowed to be used by prosecutors, and Mr Starr believes they contain information relevant to Mrs Clinton's role in the controversial firing of the White House travel staff.

Although a federal judge initially ruled in Mr Hamilton's favour, the court of appeals overturned that judgment. However, the Supreme Court's decision to take up the case now means that, even if the ruling is upheld, prosecutors will not have access to the documents until the middle of next year at the earliest.

The court's intervention came as the justices began hearing oral arguments on another closely watched case, concerning whether people with Aids are protected by the Americans with Disabilities Act, which prohibits discrimination against the handicapped.

Kenneth Starr: believes Foster would have been key witness

Under the act, disabled people can demand equal service in areas of "public accommodation" such as cinemas and doctors' offices.

The case concerns a dentist who refused to treat a woman carrying the HIV-virus, which causes Aids, unless he could carry out the procedure in a hospital with special precautions to prevent transmission of the disease. The court's decision, expected later this year, could have huge implications for how medical practitioners, employers and other professional groupings deal with the estimated 1m HIV-positive Americans.

Supported by the Clinton administration, lawyers for the patient are arguing that Aids qualifies as a disability because it impairs the sufferer's ability to have children for fear of passing the disease on to babies. In terms of the act, a disability is any impairment of any "major life activity".

However, lawyers for the dentist, supported by the 140,000-member American Dental Association, are arguing that Aids does not qualify.

IMF-AGREED TERMS ATTEMPT TO INCREASE REVENUE FROM COMPANIES

Tax reforms anger Argentine business

By Ken Warn in Buenos Aires

Argentine companies are up in arms about the government's tax reform proposals and have taken out newspaper advertisements attacking the package, signed by President Carlos Menem on Friday.

Now they aim to take their battle against the reforms to Congress. No wonder, officials mutter under their breath – most companies try their hardest not to pay any taxes at all.

The package is a cornerstone of the structural reforms to which Argentina is committed under the terms of its three-year $2.8bn extended fund facility agreed in February with the International Monetary Fund. An IMF team arrived in Buenos Aires yesterday to review the economy and progress on structural change.

The tax reforms, which are intended to be balanced and revenue neutral, had three main aims, said Pablo Guidotti, treasury secretary. They are:

- Cutting unemployment from its present 13.7 per cent and improving competitiveness. The 22 per cent tax on labour met by companies will be cut by 6.5 points in an effort to stimulate job creation;
- Eliminating distortions in the tax law which subsidise corporate indebtedness;
- Reducing tax evasion, which is estimated at between 40 and 50 per cent.

Higher taxes on tobacco, alcohol and soft-drinks have brought the loudest protests from industry. Value added tax (VAT) will also be imposed for the first time on cable television, health insurance, advertising and printed publications, except for newspapers. The prevailing VAT rate of 21 per cent will be halved on essential foods.

Taxes on company and individual earnings will rise from 33 to 35 per cent. A tax of 15 per cent is to be imposed on interest payments on borrowings through the bond markets, payable by the issuer, and on payments to other foreign lenders.

Under current tax law, interest payments were tax exempt and deductible, providing a subsidy to indebtedness, said Mr Guidotti. "Some of the problems in Asia have to do with tax incentives to debt. We see this as a distortion and want to eliminate it."

There is evidence that many Argentine companies generate debt and interest payments to minimise their tax liabilities. In the last fiscal year only 39 per cent of companies which presented tax declarations incurred any tax liability. Of the 1,600 biggest contributors, only 700 registered a positive tax liability.

To pull the other 60 per cent into the tax net, the government plans both the tax on borrowings and a 1 per cent tax on gross assets. It also aims to adopt OECD norms on transfer pricing to stop companies manipulating their internal prices to cut tax liabilities.

Bond market investors have expressed concern that the tax on bond interest payments could trigger tax contingent clauses allowing Argentine bonds to be called at par. "Our legal advice is that these clauses would not be triggered and the tax will not generate changes in outstanding securities," said Mr Guidotti.

Despite the opposition from business, Mr Guidotti is confident the main proposals will be passed. He also expected the IMF team to be happy with economic progress.

Call to cut trade impact on jobless

By Nancy Dunne in Washington

The US should extend training and assistance to workers who lose their jobs as an indirect result of lost business through cheap imports, according to a report released by the Washington-based Economic Strategy Institute yesterday.

In a report, the ESI urges swifter action and enlarging the scope of assistance for the newly unemployed to include "secondary workers".

The report predicts increased worker displacement this year as the US market is flooded by imports in the wake of the Asian currency crisis. US exports have already begun to fall as prices rise steeply in foreign markets.

"Without some kind of programme it will be hard to pass fast track [negotiating authority] or any other kind of trade agreement," according to Howard Samuel, an author of the report and former senior official at the AFL-CIO, the umbrella organisation for US unions.

Although the Republican-controlled Congress has been unenthusiastic about trade initiatives this year, the House has passed Africa trade legislation and the Senate is likely to take it up.

In addition, two federal trade adjustment programmes are due to expire this year. They are likely to be reauthorised – or at least extended as it is an election year and congressmen are unlikely to stand by and watch imports soar or companies move production overseas without extending help to sacked workers.

ESI suggests merging the two programmes. One, designed for the North American Free Trade Agreement, is for workers who have lost jobs because of imports or as a result of companies moving to Canada and Mexico. The other is a larger scheme for jobs lost due to trade.

In 1997, the programmes provided training to 150,000 unemployed at a cost of $300m–$120m for training and the rest for income support.

Over the years, there have been shifts in the geographical and industrial composition of trade and its impact on workers. In the 1960s and 1970s, the largest number of workers receiving benefits lost jobs in the steel or automotive industries in the north and midwest. Since the early 1990s, most workers have come from the clothing and textile industries in the south or south-east.

Other workers come from industries making electrical and transportation equipment, computers, medical equipment, fabricated metal products and producing oil and gas.

Low rates help lift sales of new homes to US record

By Gerard Baker in Washington

The lowest mortgage rates in four years, unseasonably warm weather and accelerating income growth lifted new US home sales to a record last month, further evidence that the economy continues to confound economists' expectations of an imminent slowdown.

Sales of new single-family homes jumped 4.8 per cent to a seasonally adjusted annual rate of 893,000, the Commerce Department said yesterday. It was the highest figure since sales began to be tracked in 1963.

Sales were up overall by 12 per cent in the first two months of 1998.

Declining long-term interest rates have depressed the cost of mortgages in the past two months and many buyers have been propelled towards the housing market by strong wage and salary increases and big gains in the stock market. The warm-weather effects of El Niño have contributed to strength in the housing market.

The figures heighten the dilemma for the Federal Reserve as it assesses the overall pace of economic growth in the first half of the year. The Fed's policy-making open market committee meets today to review developments and is expected to leave interest rates unchanged.

Prices paid for new homes continued to rise, with the median price paid last month, at $153,000, up 7 per cent on a year ago.

BIG BANG LIBERALISATION OF EQUITY TRADES IS LIKELY TO PROMPT A PRICE WAR AMONG BROKERS, BRINGING THE COST OF DEALING TO LEVELS NEARER THOSE OF LONDON AND NEW YORK

Japanese brokerages face fight for smaller commissions

By Gillian Tett in Tokyo

Yoshinari Hara, president of Daiwa Securities, is preparing for battle.

Tomorrow, commissions on equity trades over Y50m ($384,000) will be liberalised, echoing the UK financial market reforms of 1986. "We expect to see a price war now," Mr Hara says. "We think commissions could fall by 40 per cent."

Such a switch would mark a significant shift for Japan's protected brokerages. Commissions on equity deals under Y1bn are now paid on a fixed scale, controlled by the government. This has stipulated, for example, that deals worth Y50m, Y100m and Y500m respectively command commissions of Y272,500, Y385,000 and Y1.04m.

What will happen tomorrow is unclear, because the newly competitive environment is making brokers more secretive about the fees they will charge. What is clear, however, is that Japanese commissions are considerably higher than the market rates charged in London and New York.

Large brokers such as Nomura and Merrill Lynch have already quietly suggested to their best clients that they will offer a new flat fee of Y272,500 for deals between Y50m and around Y130m after April 1. The Y272,500 charge is significant because it is the fixed rate for Y50m deals – and thus the biggest discount that can be offered until deals below Y50m are liberalised as well.

The brokers deny this will be a blanket policy. And some foreign houses hope to avoid sharp cuts by offering value-added services, such as better research. However, such cuts will force smaller brokers to follow suit: companies such as Universal Securities and Marusan Securities are already promising the Y272,500 flat fee.

Such steps have delighted the brokers' clients – and provided a graphic illustration of how Big Bang is bringing in new competition. It remains to be seen whether Tokyo will repeat the experience of London, and see a rapid wave of closures and mergers after such price falls.

Certainly, many brokers seem ill-prepared to cope with the loss of revenue. Equity commissions represent more than 50 per cent of revenues at second-tier brokers such as Okasan, Wako and Kankaku. Five second-tier brokers have reported losses for six consecutive years. And though many brokers hope that higher stock market volumes will offset the price cuts, there seems little sign of a surge in trading levels yet.

But in one respect Tokyo's reforms differ from London's changes. For though the UK deregulation occurred in a single blow, commissions on deals under Y50m in Japan will not be liberalised until 1999. Thus tomorrow's changes will only affect a small portion of the market.

Small Japanese brokers, for example, draw most business from trades under Y50m. The largest western and Japanese brokers have been conducting some trades over Y50m offshore in recent years, at market rates. And even Daiwa says that only Y10bn of the Y72bn revenues it received in the 1997 fiscal year from equity commissions will be affected by tomorrow's reforms. "I think tomorrow's changes will cut our revenues by only Y4bn or so," Mr Hara says.

This might soften the blow tomorrow, but the pain has only been deferred a year, and brokers are already scrambling to develop alternative strategies before full liberalisation in 1999.

Mr Hara, for example, wants to double retail assets under management from Y9,000bn to Y18,000bn before 2001 to offset any revenue loss. Indeed, by 2001 he expects commission to represent just 30 per cent of total revenues – down from 54 per cent now.

But many weaker brokers do not have the skills to attempt such a radical switch in their business base. "I think there will be a shake-out," says Mr Hara. "Companies without a strategy will not survive."

Not so much a Big Bang, more a series of pops

By Gillian Tett

London has done it. So has New York. Now it is Tokyo's turn to experience financial deregulation.

That, at least, is the rhetoric surrounding the Japanese government's "Big Bang" which officially starts tomorrow.

For 18 months after Ryutaro Hashimoto, prime minister, first pledged to reform Japan's protected financial system, on April 1 two key changes will occur: foreign exchange controls will be largely removed, and stock brokerage commissions partly liberalised.

Such changes have great historical significance. Similar reforms in the UK and US in the 1970s and 1980s helped trigger the financial revolution seen in London and New York during the last decade.

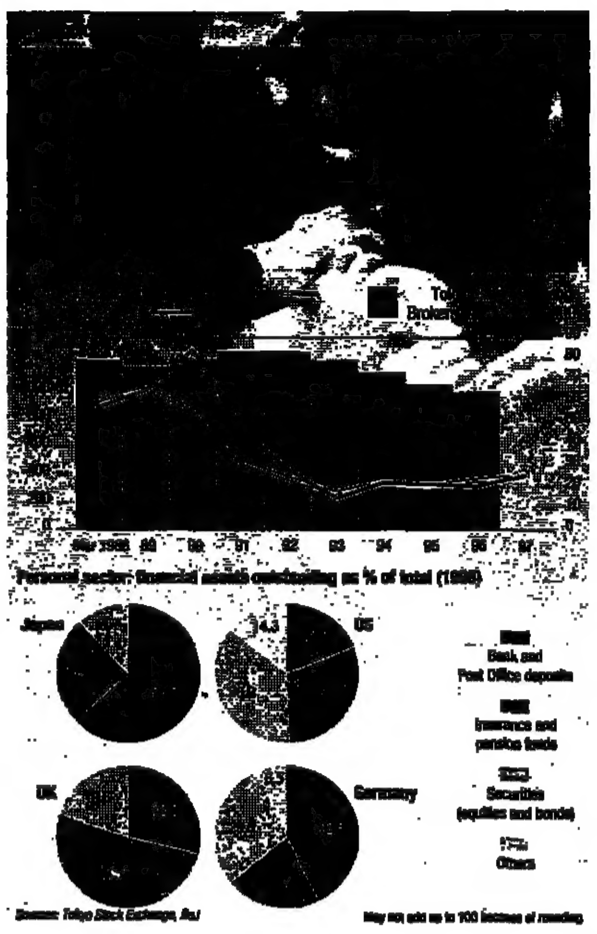
Tomorrow's changes could also be powerful catalysts for change in Japan.

Liberalising brokerage commissions, for example, could force a shake-out of the country's brokers. Removing controls on foreign exchange deals could trigger capital flight, unless Japanese companies make themselves as attractive as overseas competitors.

But tomorrow is only the start. For though the project has been called a Big Bang – the nickname given to London's 1986 deregulation of the securities market – in practice it will operate more like a series of "pops".

One reason is that the timetable stretches from now until 2001. The other is that Japan's Big Bang is much broader than the UK reforms. Mr Hashimoto has not simply pledged to deregulate the securities markets – but also to find a more efficient way for the country to use its Y1,200,000bn ($9,200bn) savings, and make Tokyo a more competitive financial centre. Thus Big Bang affects not only brokers, but banking and insurance as well.

Later this year, for example, banks and brokers will be allowed to form holding companies, banks to sell mutual funds and brokers to offer quasi-bank accounts. In 1999 banks and brokers will be permitted to compete with each other. In 2001 the same freedoms will be applied to insurance companies. And before 2001, new financial instruments, such as derivatives, will be permitted in Japan.



Source: Tokyo Stock Exchange, BoJ

In theory, such measures could transform the country's financial sector. Savings could move from low-yielding bank deposits into mutual funds. Tokyo could win back some financial business it has lost to New York and London in recent years. The capital and equity markets could surge.

But in practice – with, for example, regulation still inadequate, and the national postal savings system unreformed – huge obstacles still dog the programme.

Fingers crossed as yen curbs end

Gillian Tett reports on a debate about the possibility of a large-scale exit of capital

Tomorrow in the branches of Japan's Bank of Tokyo-Mitsubishi a subtle change will take place. For the first time the bank will allow customers to open foreign currency deposits at its normal retail banking counters, instead of a special department.

"It will make it much easier for customers," explains Kenichi Yoshino, at the international business development division at BTM, Japan's largest bank with roughly 25 per cent of foreign currency business.

The change is one of many freedoms that will be ushered in by the removal of most foreign exchange controls tomorrow. The question now is what impact these reforms will have on Japan's retail and corporate banking business?

Some observers are already predicting a dramatic capital flight, as companies and consumers decide to use offshore financial services and invest in non-yen instruments. George Curuby, an asset management analyst, says: "I forecast that the public response to the dismantling of foreign exchange controls will be so startling the authorities will try to put a brake on it."

But others disagree. "I don't think it will really make that much difference overall," retorts Mr Yoshino, who insists the changes are not as radical as they seem.

The disagreement arises partly because tomorrow's changes are very complex. One reform, for example, will remove the current rule that cross-border transactions worth more than Y5m ($38,400) have to receive prior government approval.

Another reform will allow Japanese companies to conduct business in currencies other than yen within Japan. A third change will permit businesses other than banks to offer foreign exchange services. And later this year the legal status of "netting" will be confirmed. This is a practice where companies can calculate the difference between receivables and payables and settle the balance – thus cutting their costs.

The change receiving most media attention within Japan is the abolition of the approval system for cross-border transactions. This is important because it potentially makes it easier for companies and individuals to send money overseas.

In theory, this could encourage Japanese savers to move their money. Returns on yen-based instruments are very low and offshore financial services can offer cheaper services. These factors have already persuaded some Japanese savers to invest in non-yen instruments, both on and offshore, by using complex channels that existed even without tomorrow's reforms.

The amount invested in both onshore and offshore foreign currency bond trusts, for example, has grown sharply in the last two years. Foreign currency deposits at the Tokyo office of Citibank, the US banking group, have doubled in the last year. And foreign currency deposits at BTM have also grown at a similar rate.

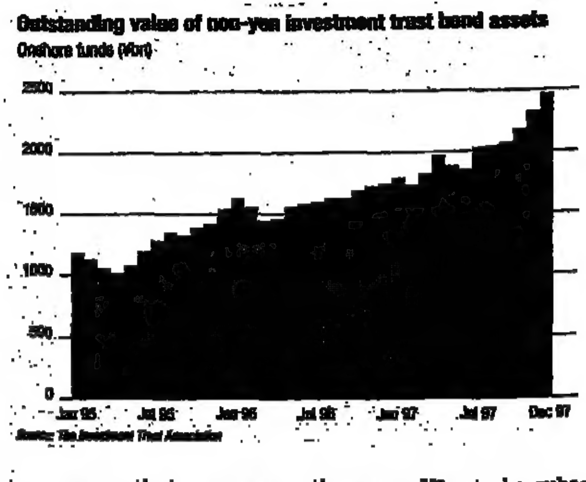
In any case, tomorrow's reforms have a catch: after April 1, a new law will require cross-border transactions over Y3m to be subsequently reported to the tax authorities. This may deter some consumers.

On the corporate side, the implications of the reforms are also complex. So far no retailers have said they want to establish foreign exchange businesses. However, trading companies may move into the field. Meanwhile, Mr Yoshino estimates that 100-200 companies will use netting, with "thousands" of companies choosing to conduct business in non-yen currencies in Japan.

This could cut corporate costs: government research in 1996 estimated such steps could save manufacturers Y175bn a year on foreign currency transactions.

"The total pie of foreign exchange business will probably go down," says Mr Yoshino. "We will just have to offer more competitive services."

Outstanding value of non-yen investment trust bond assets



INDONESIAN IMMIGRANTS MALAYSIA ASKED NOT TO TRY TO SEIZE THEM FROM REFUGEE AGENCY

'Refugees' crash truck into UN compound

By Sheila McNulty in Kuala Lumpur

Fourteen illegal Indonesian immigrants, claiming to be political refugees from Indonesia's Aceh independence movement, drove a truck through the gates of the UN refugee agency's office in Kuala Lumpur yesterday seeking asylum from forced deportation.

The incident added to tensions heightened last week when thousands of illegal Indonesian immigrants, many also claiming to be from Aceh in north Sumatra staged a bloody riot to protest at being sent home from Malaysia. Eight protesters and one police officer died in the confrontation. A total of 1,168 escaped, though the authorities rounded up most by nightfall.

Judith Kumin, spokeswoman for the UN High Commissioner for Refugees in Geneva, said the agency had asked the authorities not to seize the Indonesians from its compound. UNHCR is examining the cases of the men, who say they escaped from the camps and fear persecution if they are returned to Indonesia.

If the UNHCR determines the men are refugees, Ms Kumin said it will ask the Malaysian authorities to respect that classification and seek a long-term solution. The incident mirrors one in the early 1990s. The agency said several Acehnese took sanctuary in the UNHCR compound, where they stayed for two and a half years until Malaysia granted them temporary permits to stay.

Amnesty International and Malaysia's opposition called on the authorities to differentiate between economic immigrants and political refugees. Amnesty International said incommunicado detention, torture, extrajudicial executions and disappearances continued to be reported in Aceh province and that some Acehnese may be at risk if returned.

"Fair enough if they want to deport illegal immigrants, but why send people to their death? That distinction should be made," said Lim Guan Eng, Malaysian opposition MP.

The Malaysian authorities fear the regional downturn will make it difficult for immigrants to find work and thus turn them to crime, but is wary of granting the Acehnese refugee status for fear of angering Indonesia.

The Acehnese movement accused the authorities of targeting its people for deportation; poisoning camp detainees to render many unconscious while police attacked with automatic weapons. "We strongly condemn this barbaric act," the group said.

While most of the Malaysian authorities denied targeting the Aceh people, others, like the deputy minister in the home ministry, Tajol Rosli Ghazali, were quoted as saying that the latest round of deportations aimed to do just that.

Malaysia's proximity to Indonesia makes it the prime target of the thousands fleeing Indonesia's economic crisis. More than 10,000 Indonesians were in camps when the riots broke out.

CURRENCY SUFFERS NZ$ 20 PER CENT LOWER THAN 15 MONTHS AGO

NZ faces up to slower growth and exports

By Terry Hall in Wellington

New Zealand's balance of payments position is deteriorating rapidly, reflecting its heavy reliance on trade with Asia which has been taking 37 per cent of exports. Latest statistics also show that economic growth is slowing with gross domestic product falling to 2.3 per cent for the 12 months to December, the slowest rate for four years.

The current account deficit widened to 7.7 per cent of GDP, or NZ$7.5bn (US$4.2bn) for the calendar year to December, Statistics New Zealand said. This was up from the deficit of NZ$3.6bn, or 3.5 per cent in the 12 months to December 1996.

The Reserve Bank had been warning since late last year that the current account deficit was widening, but the figure was higher than the 7 per cent widely expected.

However, the slowdown in GDP was expected and was a factor in the Reserve Bank's decision to ease monetary policy earlier this month, a move that is expected to see growth pick up again later this year. GDP has been slowing since 1994 when the Reserve Bank acted to tighten monetary policy after growth reached 6.6 per cent.

Financial markets responded to news of the worsening current account deficit on Friday by pushing the New Zealand dollar down, and short-term interest rates up marginally. But there was a more muted response following yesterday's release of the GDP figures.

Westpac chief economist Bevan Graham said that the markets had been factoring in expectations of worsening figures for some time, and this was reflected in the recent sharp fall in the value of the New Zealand dollar – which had fallen by 20 per cent since its peak 15 months ago.

The markets had been factoring in expectations of worsening figures for some time

Much of the problem was because the New Zealand dollar had been overvalued for too long, and this encouraged imports at the expense of exports.

Recent currency changes, which both the government and the Reserve Bank expect will bolster exports, are expected to lead to a gradual shrinkage in the size of the deficit. However most private sector economists expect it to remain between 7.5 per cent and 8 per cent of GDP this calendar year as New Zealand exporters struggle with the Asian crisis. The most severe impact from Asia is expected to occur in the current quarter.

Latest merchandise trade figures show that trade with Indonesia fell by 60 per cent last month to NZ$39m while those to South Korea were down 44 per cent to NZ$131m from NZ$234m in the comparable month of last year.

International investors appear to be sanguine about the worsening balance of payments position because much of it relates to private borrowing by overseas owned banks for housing and related investment purposes, and the government is running a surplus.

The government yesterday announced a much higher than expected operating surplus of NZ$2.19bn. Stephen Toplis, a leading economist, said this suggested that the budget would show a surplus of NZ$2bn – half a billion better than the treasury had forecast for the year to March.

Ranariddh back in Phnom Penh for elections

By Ted Bardacke in Bangkok

Cambodia's ousted first prime minister, Prince Norodom Ranariddh, returned to Phnom Penh yesterday, pledging to reorganise his shattered royalist party Funcinpec in preparation for the country's general election in July.

Prince Ranariddh had been in self-imposed exile for the past nine months, having fled Cambodia days before troops loyal to Hun Sen, the second prime minister, engineered a violent coup.

Prince Ranariddh was subsequently replaced as co-premier, the Cambodian government's seat at the United Nations was temporarily suspended, the Association of South East Asian Nations (Asean) reversed a plan to grant Cambodia membership, investment dried up and crucial foreign aid was scaled back.

The prince's return is the latest step in a Japanese-brokered plan aimed at ensuring "free and fair" elections.

"The road [to elections] will be tedious, bloody and confusing," said one diplomat. The tedious part is likely to surround the elaborate technicalities of the Japanese plan, which got the prince home by having him convicted in a Hun Sen-controlled court on charges of arms smuggling and colluding with the Khmer Rouge insurgents.

The prince's sister then requested a pardon, subsequently granted from Beijing by the prince's father, King Norodom Sihanouk. Sihanouk granted the pardon after Hun Sen agreed to back the request.

Now Prince Ranariddh must negotiate a ceasefire between government forces and troops, holed up in a landmine-guarded enclave on the Thai border, who still support him.

Such a ceasefire must be in place before the prince can be eligible to take part in the elections.

The blood, as is often the case in war-torn Cambodia, has already been spilled. On Saturday, Colonel Chea Vutha, head of a military training school and a Funcinpec loyalist, was killed as he left a party meeting.

He is the second Funcinpec military official in as many weeks to be killed; at least 43 Funcinpec officials met extrajudicial deaths in the wake of last year's coup, according to the UN.

None of those killings has been solved. Yesterday, Human Rights Watch said the return of Prince Ranariddh was "important" but that "other fundamental hurdles needed to be overcome to ensure free and fair elections, such as seriously addressing mounting political violence and lack of an independent judiciary.

Ranariddh: supporters killed

The confusion reigns on a number of fronts. Rumblings of dissent within the Khmer Rouge guerrilla group has exploded into open conflict over the past few days, complicating the political and security situation in the northern and western parts of the country.

The prince, who says his participation in the election is a litmus test for democracy, has come under increasing criticism internationally for his mediocre performance while in office and as opposition leader.

He plans to return to his residence in Bangkok after only four days in Cambodia.

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NEWS DIGEST

AUSTRALIAN TELECOMMUNICATIONS

Telstra bidders warned of big fines for poor service

The Australian federal government yesterday threatened telecommunications operators with fines of up to A$10m (US$6.7m) for poor service as part of its campaign to push through legislation on the A$40bn privatisation of the remaining two-thirds of Telstra, the largest carrier.

The legislation could could become yet another trigger to a dissolution of both houses of parliament as the Senate prepares to debate for a second time two other crucial bills. The controversial Wik Native Title Amendment Bill, be debated in the Senate tomorrow is also seen as a possible dissolution trigger because of opposition from Brian Harradine, Tasmanian independent senator, who holds the balance of power in the upper house.

Senator Harradine has also voiced concern about the Telstra sale, siding with the opposition and government members from rural areas. They say Canberra cannot guarantee a good service to customers in Australia's regional and rural areas once Telstra is fully privatised. However, the finance minister, John Fahey, said telephone companies would face heavy fines for not complying with strict service targets. **Mark Mulligan, Sydney**

JAPANESE ECONOMY

Industry output falls by 3.3%

Japan's manufacturing and mining industries posted very poor production, shipment and inventory data in February. Production dropped a worse than expected 3.3 per cent compared with January, while shipments fell 3.6 per cent. In spite of these cuts, inventories continued their relentless rise, up 0.5 per cent, the fourth consecutive month of increases.

The inventory figures were particularly worrying. The inventory to shipments ratio, which gives an indication of future production trends, reached 127 – the highest level since May 1975. As a result, the ministry of international trade and industry warned that it had changed its mind about output growth, and that it expected production would fall again, by 2.5 per cent in both March and April. Brokers HSBC said this implied production would decline 1.2 per cent quarter on quarter during the first three months, making it the fourth consecutive quarter of negative output growth.

ING Barings, the normally bullish broker, conceded the overall figures were "clearly terrible". It blamed a collapse in overseas demand, caused by the Asian crisis. The grim data, which were a factor in 2.8 per cent tumble of the benchmark Nikkei 225 index to 16,263, are likely to bring further pressure on Ryutaro Hashimoto, the prime minister, to take further measures to boost the country's recession-ridden economy. **Paul Abrahams, Tokyo**

VIETNAMESE GROWTH

Hanoi sticks to 9% target

Vietnam will stick to a growth target of 9 per cent for this year, official newspapers said yesterday, in spite of a marked slowdown in exports and warnings from western economists that a level at least three percentage points lower is more likely.

Lai Van Cu, head of the government's cabinet office, acknowledged Vietnam was "finding it hard to achieve its socio-economic targets for 1998", largely because of the regional financial crisis, but said there would be no changes.

Export earnings have fallen in the wake of devaluations by Vietnam's competitors in the region. The country's foreign exchange reserves have slipped for the past two consecutive months and government revenues are down. Hanoi is clinging to the 9 per cent target because it was set at a landmark Communist party congress in 1996 and can not be revised without significant political embarrassment. **Jeremy Grant, Hanoi**

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LONDON PROPERTY MOVE TO DOCKLANDS SITE IS MOST SIGNIFICANT DEFECTION BY FINANCIAL SERVICES COMPANY

HSBC shuns City in $835m relocation

By Norma Cohen, Property Correspondent

HSBC Holdings plans to move from the City of London into a £500m ($835m) headquarters of 100,000 sq m at Canary Wharf to consolidate its banking and insurance activities in one site.

The move is the most significant defection by a financial services company from the City, and a boost to Canary Wharf in the Docklands district some 8km east of the City.

The building at Canary Wharf, expected to be completed in late 2001 at a cost of £500m, will be 210 metres high, the tallest in London since the Canary Wharf tower was built. It will be 41 storeys with a four-storey podium, and will house roughly 8,000 staff.

HSBC said yesterday its relocation eastward was prompted by the lack of similar-sized buildings in the City. "There just wasn't a building which would have allowed the integration of all our divisions," an HSBC spokesman said.

The new building will house the bank's commercial and investment banking businesses, treasury operations and its insurance businesses, as well as a 50,000 sq ft trading floor.

The owners of the Canary Wharf complex decided last November to resume speculative development on the site aimed at tripling the size of the complex within seven years. The decision by Canary Wharf Ltd, of which Paul Reichmann is executive chairman, was the most ambitious property development in the UK since the recession of the early 1990s which caused the collapse of some of the largest property groups. They included Olympia & York, the Reichmann family's Toronto-based company.

HSBC said yesterday it would retain its historic Midland Bank headquarters near the Bank of England in the City, although it will simply operate as a branch. Midland Bank's executive offices will move to Canary Wharf.

Mark McAlister, partner at property consultants Richard Ellis, agents for Canary Wharf, said the move reflected high demand for modern office space in London. "Where else in the City can you get 1.1m square feet of space? With vacancy rates below 5 per cent, it's just not possible."

The Corporation of London, the municipal authority for the City, has tried hard to encourage redevelopment of City property. It said it believed it had largely succeeded in retaining international banks.

The existing 4.5m sq foot Canary Wharf is currently 98 per cent leased with construction under way for a further 885,000 sq ft for Citibank and Credit Suisse First Boston. Construction will also begin shortly on a 188,000 sq ft speculative development. Total employees at Canary Wharf will exceed 30,000 by 2001.

Boardrooms' millennium mood swings to positive

As the deadline approaches, more companies are planning their special contributions to the celebrations, **Brian Groom** writes

A year ago many company executives viewed the millennium celebrations with suspicion. They feared they would be accused of crassness if they jumped on the bandwagon by adding the word "millennium" to anything that sells.

Now the mood is changing. An analysis of Britain's 20 biggest companies shows that nearly two-thirds are working on plans for the millennium, while others are thinking hard about whether to get involved.

In part this is because the deadline is approaching. There has been a shift of mood over the past two months. The initiatives go beyond the issue of whether to sponsor the Millennium Dome in south-east London. Companies are preparing their own community and marketing projects.

It was different last July when Abbot Mead Vickers, the advertising and marketing services group, delivered a presentation. It was a complex message for companies to absorb: the millennium could bring commercial benefits, as long as they avoided fuelling public cynicism with easy promotions, PR stunts and clever advertisements.

According to AMV's research, the public's interest in the millennium was deeper than it appeared: only 17 per cent considered it a waste of time or money, a figure which dropped to 12 per cent of those aged under 25. There was an "emotional, even spiritual core" to the way people viewed it and the way they expected it to be marked.

Simon Matthews, associate director of AMV's public relations company, Fishburn Hedges, said: "The public feel disenfranchised. They say institutions regularly let them down and they look to other organisations for leadership." Businesses could enhance their reputations by tapping into people's values – although they would soon be seen through if the substance did not match their claims.

'Businesses could enhance their reputations by tapping into people's values'

The company that has welcomed this message most enthusiastically is Guinness, part of food and drinks group Diageo, which announces today that it will be the official beer sponsor for the Old Royal Observatory's celebrations at Greenwich, promoted as "the home of world time". Greenwich Mean Time will be renamed "Guinness Mean Time" until the end of 1999.

The company claims, however, to be tapping into deeper levels. Roy Mantle, head of public relations and sponsorship at Guinness Great Britain, says: "Our advertising has been surreal over the past decade. We want to get people to think, to encourage them to communicate with us and connect with what's going on around them. We have got to get the spiritual element as well as the party element."

Others are opting for more straightforward forms of corporate citizenship. SmithKline Beecham is donating supplies of its drug albendazole in a 20-year programme with the World Health Organisation to eliminate lymphatic filariasis, one of the most disfiguring tropical diseases. Zeneca is finalising a trust fund to provide science teachers and equipment, mainly to primary schools.

British Telecommunications, the former privatised utility, the British Sky Broadcasting satellite television network, Manpower and the Tesco retail chain are each putting £12m ($20m) into sponsorship programmes associated with the Millennium Dome, with smaller sums from British Airways and BAA, operator of the biggest UK airports.

Other initiatives might have happened anyway. Shell's scholarships for overseas postgraduate students cover both the millennium and the company's own centenary.

Few companies, however, seem to be taking the opportunity to motivate staff by way of loyalty bonus schemes, training programmes or new corporate objectives. Among the top 20, so far only Reuters is following the lead of Levi Strauss, the US clothing company, with an incentive scheme.

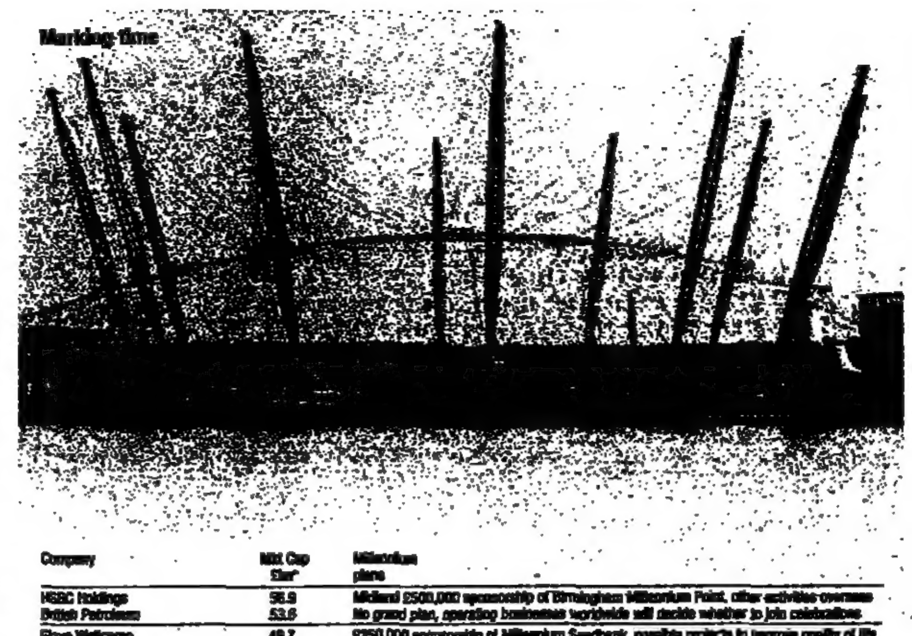
Reuters' Plan 2000 will allow staff to take an option on 2,000 shares, exercisable in 2001. This underlines how much slower the concept of "internal marketing" is to take off in Britain than in Germany or the US.

AMV advised companies thinking about millennium programmes to avoid gimmicks and start early, to give their strategies time to work and stand out from the inevitable clutter of millennium marketing.

The clutter is already growing. Gold mining companies, for instance, are planning a millennium coin, while EMI intends to rebrand the Beatles as The Band of the Millennium, promising to release new material.

Many companies have left it late, but probably not too late. It is a difficult decision to make, poised between fears of missing out on an opportunity and being accused of jumping on the bandwagon.

Those who decide to become involved are gambling that millennium fever will prove stronger than millennium nausea.



Marking time

Company	Mkt Cap £bn*	Millennium plans
HSBC Holdings	56.9	Midland £500,000 sponsorship of Birmingham Millennium Point, other activities overseas
British Petroleum	53.6	No grand plan, operating businesses worldwide will decide whether to join celebrations
Glaxo Wellcome	49.7	£250,000 sponsorship of Millennium Seedbank, possible projects to improve quality of life
Shell Transport & Trading	45.1	£10m scholarships scheme for 50 postgraduates a year from developing countries
Lloyds TSB Group	45.0	Issue still under consideration nationally, local branches may be doing something
SmithKline Beecham	33.3	Donating free drugs in 20-year world programme with WHO to eliminate lymphatic filariasis
British Telecommunications	26.2	£12m sponsorship of Dome, national programme, free e-mail address for everyone over nine
Barclays	25.4	Regional offices will have budget for millennium projects. Dome sponsorship not ruled out
Diageo	23.6	Guinness official beer for Meridian 2000, spirit brands planning events, collectibles
Zeneca	19.2	Trust fund to provide science teachers, materials and equipment, mainly in primary schools
Halifax	18.9	*No specific plans, may do something internally, but busy working on millennium bomb*
Marks and Spencer	18.1	Consulting staff, customers and suppliers on what they want; decisions soon
BAT Industries	16.9	Saving up to celebrate its centenary in 2002, but nothing for the millennium
National Westminster	16.0	Campaign for Financial Literacy builds on work done with schools; takes initiative to adults
Unilever	14.8	Nothing special planned at corporate level, unclear whether individual brands will do things
Abbey National	13.5	Activities planned for 150th anniversary next year, but nothing yet for the millennium
Prudential Corporation	13.4	Product-related marketing activity, "early millennium feel" to this year's 150th anniversary
Reuters Holdings	12.4	Option scheme for its 15,000 employees to acquire 2,000 shares exercisable in 2001
Cable & Wireless	12.0	Sponsors a number of projects, but nothing specifically planned for the year 2000
BG	12.0	Considering proposals for community and environment-based projects; no decisions yet

*FT 500, end-Sept 97. Diageo figure is combined Grand Met/Guinness total at that time

Above: The Millennium Dome takes shape in London. Below: Companies prepare their celebrations

Criticism highest for 'one issue' adverts

By Alison Smith, Marketing Correspondent

Three of the four advertisements which attracted the most complaints last year came from single issue organisations rather than consumer companies, the Advertising Standards Authority said yesterday.

In its annual report, the watchdog said poster and cinema campaigns for the Gun Control Network were the subject of 94 and 56 complaints respectively, while there were 65 complaints about a press advertisement by the Vegetarian Society.

While complaints that the gun control adverts were misleading and offensive were not upheld, the authority found the vegetarian advertisements – showing cancer scars and linking cancer with eating red meat – were offensive and shocking as well as being misleading in some respects.

Tina Fox, chief executive of the Vegetarian Society, said the responses the organisation had received painted a different picture of reaction: "We had about 3,000 letters, of which only 30 were complaints. The rest – 99 per cent – were from people wanting more information."

Complaints last year about the portrayal of women in advertisements fell by almost half from 846 in 1996 to 433, although more than 300 of the complaints in 1996 related to a single advertisement after a national newspaper had encouraged readers to express opposition to the image it contained.

In total, the number of complaints to the ASA fell by just over one-tenth to 10,678 from 12,055, and the number it upheld more than halved to 1,048.

Taiwan company invests $18m in Scottish plant

By Laura Tyson in Taipei and James Buxton in Edinburgh

Delta Electronics, a Taiwanese company, is investing $18m in a plant in Scotland to manufacture power supplies for computers as part of its strategy of tackling the European market. It expects later to manufacture other products such as monitors.

Delta already supplies computer manufacturers in Scotland including Compaq, IBM and Motorola, and has big customers in mainland Europe such as Apple, gateway and Packard Bell. It expects to employ 200 people within two years in a plant at East Kilbride near Glasgow where it opened a sales office in 1991.

In 1990, Delta announced with some fanfare that it would invest £14m in a large plant at Inchinnan, west of Glasgow, which would eventually employ 570 people. Later it put the project on hold and confined itself to the sales office.

John Tsang, Delta's managing director for European operations, said Scotland was chosen for its suitable location, being ideally placed for serving key customers, and having skilled labour.

According to the Taiwanese ministry of economic affairs, 86 per cent of Taiwanese investment in the UK is in Scotland, with eight companies operating there. Easily the biggest is Chung Hwa Picture Tubes which is implementing a £260m project to making cathode ray tubes in a plant at Mossend in Lanarkshire which will eventually employ 3,300 people. The first phase was opened last year by Queen Elizabeth.

Lite-On, another Taiwanese company which is a major manufacturer of computer monitors, is completing a £40m plant nearby to make monitors. It should eventually employ about 1,000 people and came to Scotland to be close to Chung Hwa.

The reaffirmation of Delta's commitment to Scotland is good news at a time when there have been fears that inward investment from East Asia would dry up because of the economic crisis affecting many of the so-called tiger economies. Hyundai of South Korea has drastically slowed down work on a £1.25bn semiconductor plant at Dunfermline in Fife because of the continuing economic difficulties in Korea. However the plant is scheduled to open at the end of 1999.

The Taiwanese economy has been much less badly affected by the crisis in east Asia, with companies being less extended financially and less reliant on government backing.

Broker reveals incentive data

By Christopher Adams, Insurance Correspondent

A leading London-based insurance broker has published details of controversial incentive payments received from insurers. Jardine Lloyd Thompson is thought to be the first broker to have disclosed such information publicly.

JLT said it was responding to concerns among buyers of commercial insurance that the incentives could result in a conflict of interest for brokers. It said in its annual report the incentives were "less than two per cent" of revenue last year.

Risk managers at some of the UK's biggest companies have called for more transparency in brokers' remuneration. Brokers act as go-betweens in the commercial insurance market, representing companies that buy insurance in their dealings with underwriters. Underwriters insure risks and earn a premium for doing so.

The payment of incentives is under scrutiny following concern at Lloyd's of London that some brokers have exerted pressure on underwriters for these additional sums in exchange for access to business.

JLT said the incentives reflected "profitability, premium volume and administrative efficiencies across the entire business portfolio." The group would continue to identify separately their contribution to overall revenue. Steve McGill of JLT defended incentives: "Not having them would put us at a disadvantage in the marketplace."

J&H Marsh & McLennan, the large US-based broking group, said it derived around 5 percent of its total remuneration for "services rendered to the market". Such payments did not come from clients.

LONDON STOCK EXCHANGE ANALYSIS SUGGESTS SYSTEM WHICH REPLACED MARKETMAKERS HAS BROUGHT SOME IMPROVEMENTS AFTER A ROCKY FIRST MONTH

Review of electronic order book opens amid criticism

By George Graham, Banking Editor

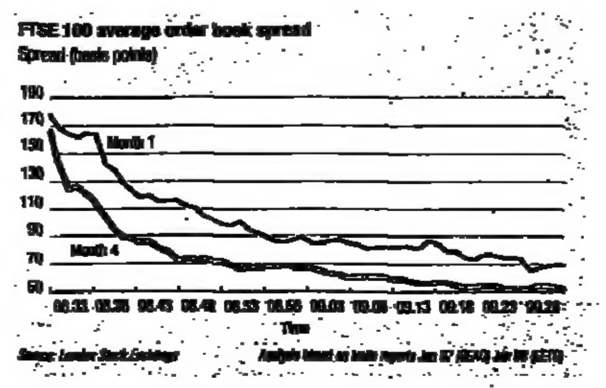
The London Stock Exchange's new electronic trading system has attracted widespread criticism since its launch last October.

The exchange has now issued a broad consultation document to review its operation. The new system replaces the old marketmakers – who received tax and trading privileges in return for promising to offer permanent buying and selling prices for the shares they dealt in – with a central electronic order book in which investors and traders place buy or sell orders and wait for them to be matched.

The exchange's analysis suggests that the new system has brought some improvements after a rocky first month. The percentage of trades executed through the order book has dwindled slightly to a little under 30 per cent of total trading volume.

But the exchange argues that the order book's true share is closer to 60 per cent, after stripping out small orders which are not allowed on to the order book and very large orders which are usually handled behind the scenes by brokers.

More importantly, the exchange claims that 75 per cent of all trades are done at the order book price, whether directly through the order book or over the telephone using the order book as a reference. Overall, the average spread between the best buying and selling prices on offer at any time has narrowed to around 50 basis points from about 62 basis points when the system was launched. The benefits have been felt even by retail investors, whose orders are often too small to be placed directly on the order book, which imposes a minimum of 500 or 1,000 shares, depending on the share price.



The exchange says that retail spreads are typically 15 per cent narrower than before – a saving of about £4 for a typical retail trade.

The exchange says it would be keen to remove the minimum size limit, as some retail brokers have asked, but must consider "the broader market impact". Any such change can be expected to meet resistance from the biggest brokers, such as Merrill Lynch and CSFB, which have invested heavily in systems for processing retail orders, and would not be keen to give up this lucrative order flow.

But if spreads have narrowed overall, they are much wider at the beginning of the day, before orders have built up, and at the end, when investors start to remove their orders from the system.

Trading in these narrower periods can be volatile, with the occasional "rogue" price some distance away from the previous market level. Rogue prices at the end of the day, especially on the last day of the quarter, can cause valuation problems for fund managers.

The consultation document suggests some ways of smoothing the closing price such as a closing auction, or using the average price over the last 15 minutes of trading, weighted by volume, instead of the last executed price.

For many large institutional investors, the problems lie less in the order book – a system they are familiar with in international markets – than in the mentality of many big brokers.

Many are considering the best way of getting direct access to the system without having to use a broker to enter their orders at all. Some institutions complain that brokers are still instructed to channel orders away from the order book to their own trading desks.

While that marketmaking mentality survives, the exchange will not truly have completed its transition.

NEWS DIGEST

STRENGTH OF STERLING

Pound at highest against D-Mark for nine years

The pound soared to its highest level in nine years against the D-Mark on foreign exchanges yesterday, leaving City of London analysts bemused by its strength. Sterling's appreciation – to its highest level since July 1989 – will revive concerns that UK exporters are being priced out of markets.

The pound ended trading hours in London at DM3.094, a gain of 1.8 pfennig since the end of trading on Friday. In trading in New York, sterling continued to rise to DM3.10. Sterling's trade-weighted index – which measures the pound against the currencies of the UK's trading partners – rose to 108.9, its highest since December 1988, when it reached 108.6. The index is now 30 per cent higher than its level in mid 1996. Stewart Newnham, international economist at *First Chicago bank in London*, said: "There's a touch of vertigo about sterling. I have a feeling this rally can't go on too much further."

Mr Newnham said sterling was pushed higher yesterday by the rise of the US dollar against the D-Mark, and by a rise in oil prices after Norway entered into an international agreement to restrict oil output. **Richard Adams, London**

Currencies, Page 31

YEAR 2000 'BOMB'

$17m international aid offer

The UK government is to contribute £10m ($16.7m) to a proposed World Bank fund dedicated to promoting action to defuse the millennium bomb in other countries, Tony Blair, the prime minister, announced yesterday. "We have identified five priority areas where international connections are particularly important: power, telecommunications, finance, defence and transport," he said. "If we do not act, the result will be loss of money and influence on a disastrous scale". The world's computer systems are inextricably linked and there are fears that if some countries neglect to correct their systems, more aware nations could still be at risk. Other measures announced by Mr Blair included £70m for small and medium-sized businesses to develop computer skills, including training grants each to create a corps of 20,000 technicians capable of solving the problem. **Alan Cane, London**

PRIVATISED RAILWAYS

Operator places 62-train order

National Express, the coach and rail operator, yesterday placed orders for 62 new trains worth £148m ($247m) for its ScotRail and Central Trains franchises. The move cements the group's position as the biggest purchaser of rolling stock since rail privatisation. It now has contracts outstanding worth £243m, having placed orders for 25 trains worth £95m last year. National Express is ordering 40 electric trains from GEC Alsthom in Birmingham and 22 diesel trains from Adtranz (ABB Daimler Benz) in Derby. **Jonathan Ford, London**

FINANCIAL REGULATIONS

Solvency fears affect company

Chartfield, a financial planning and fund management company, has been forced to close its business to new investors by industry regulators because of fears over its solvency. The Personal Investment Authority and Fimbra, industry regulators, have issued intervention notices against Chartfield Financial Planning Services, the company's advice arm, and Chartfield Investment Management because of fears that the two divisions were "unable to meet their financial resources requirement".

Dealings in seven unit trusts connected with Chartfield were suspended by the Financial Services Authority, the new "super-regulator", a month ago. Chartfield was unavailable for comment yesterday. **Jane Martinson, London**

BRITISH AIRWAYS

Two-year pay deal for staff

British Airways has reached a two-year pay agreement with its 14,000 cabin crew, some of whom took part in a disruptive 72-hour strike last year. The cabin staff will receive a 4.2 per cent increase in basic pay this year and a 0.5 per cent rise above the level of inflation for next year.

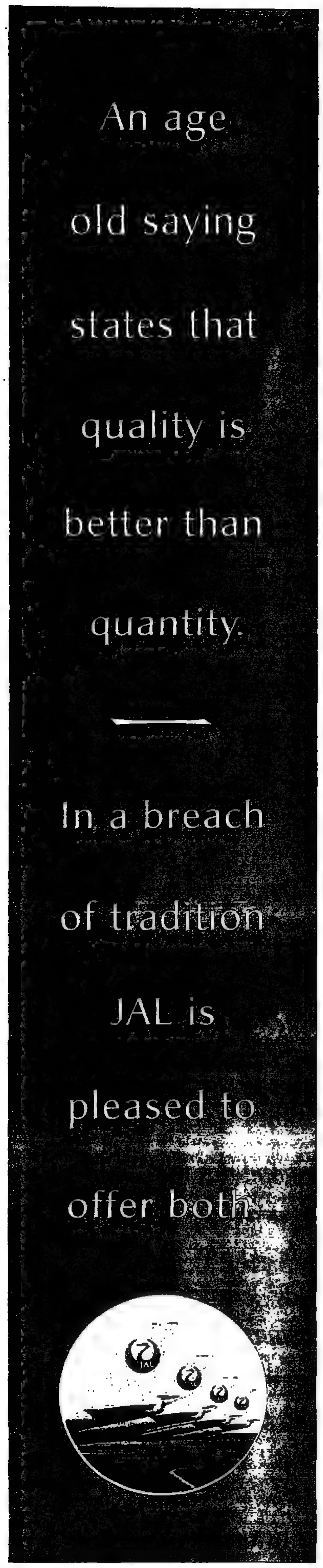
The same deal has now been accepted by six unions representing more than 35,000 BA staff, **Andrew Bolger, London**

MUNICIPAL FINANCE

Private funding considered

The government is seeking views on new formal procedures to involve the private sector in the work of municipal authorities if the authorities are given powers to vary business rates (property taxes), which are currently levied on a common national basis. A government consultation paper published yesterday said there might be "a role for more formal business involvement in relevant aspects of community planning and on relevant local authority committees." Business might also, it says, want to consider setting up US-style scrutiny committees to monitor local authority performance. **Alan Pike, London**

Editorial Comment, Page 17



SHIPPING COMBATING FRAUD

Cargo cheats receive shot across the bows

John Mason reports on how two ship owners took a legal stand against claims for goods supposedly lost at sea

Cargo fraud has always been endemic in the shipping industry. Cargoes are safely transported and delivered to their ports of destination only for ship owners later to receive bogus claims for goods supposedly lost or stolen at sea.

Such ploys have been common practice for years. It is an international problem, but west African states such as Sierra Leone, Benin, Guinea and Gambia have established particularly notorious reputations.

Yet faced with such fabricated claims the industry's response has often been deeply pragmatic. Challenging the fraudster in the courts of his country has been too much trouble, especially when it can result in a ship being arrested and, at great cost, tied up in port for months – a common tactic by claimants.

Instead, quietly paying up while trying to pass the cost on elsewhere has been a common response. While the costs of individual frauds are relatively low, normally measured in thousands rather than millions of dollars, the cumulative effect is considerable. Many leading shipping lines each face claims totalling several millions of dollars.

However, two shipping lines, the Danish Maersk Line, and the Estonian Shipping Company, joined forces in one recent case and, turning to the English courts, adopted a more robust response.

Although they succeeded when the claims against them were withdrawn, this was not easily achieved. The companies became involved in protracted legal proceedings in London and Sierra Leone. Fighting the claims also involved a London lawyer *adopting the unorthodox* practices of working undercover on board ships, tramping the back-streets of Freetown, Sierra Leone's capital, to gather evidence and receiving a death threat.

According to judgments of the English High Court and Court of Appeal, the alleged frauds concerned two separate shipments to Freetown. In 1992, a container laden with bales of textiles was loaded in Gambia on to a Maersk Line ship sailing to Freetown. The bales' buyer, a Lebanese trader named Mohamed Wansa, received the goods but later filed a writ in the Sierra Leonean courts alleging that 82 bales had disappeared while the ship was at sea. He claimed damages of $111,000 plus interest of 36 per cent a year.

The second case involved two shipments of cement sent with the Estonian shipping company by the Japanese government as aid to Sierra Leone. In each case, goods were received in Freetown by a company run by Mr Wansa.

Once again, shortages were reported and writs issued in Sierra Leone to claim damages of $348,000 plus interest. The shortages totalled almost the entire cargo of one of the ships.

The two ship owners responded by alleging fraudulent misrepresentation or deceit and breach of contract. They sought an injunction to stay the proceedings in Sierra Leone and have them transferred to England where they obtained Mareva injunctions in the High Court freezing the assets of Mr Wansa and his two companies.

Maersk Line claimed in court that it had long been suspicious about the "claims industry" in west Africa and, in particular, the activities *of a small group of* Lebanese traders in Freetown. In general, the alleged "shortages" were often said to have occurred at stages in the voyages when it was impossible for containers to have been opened. Maersk also said the scale of the alleged losses was unrealistic.

Its case was supported by affidavit evidence from Paolo Ghirardani, a partner of Stephenson Harwood, the London law firm. Over a nine-year period, Mr Ghirardani sailed on ships, sometimes working undercover as a crewman, to monitor containers and procedures and gather evidence. His investigations concentrated particularly on Sierra Leone, Guinea and Gambia.

His general conclusion was that for years there had been a large-scale fraud operating in Freetown involving certain cargo receivers.

In spite of documentary evidence of shortages provided by claimants, he found customs had often opened containers and recorded full stocks inside. Seal numbers and quantity records were then falsified to record bogus shortages.

Initially, the bogus claimants targeted the international insurance markets, Mr Ghirardani said. But when insurers became increasingly suspicious, it became an uncertain way of recovering money. Litigation outside Sierra Leone proved expensive and the true nature of the claim emerged under discovery of documents and cross-examination of witnesses.

Fighting the claims involved a London lawyer adopting the unorthodox practices of working undercover on ships...and receiving a death threat

Instead, claimants chose to bring proceedings against ship owners and their vessels in Sierra Leone. Prolonged arrest of a vessel could put pressure on ship owners to settle, whatever the merits of the case, and court judgments, often favouring claimants, could be easily enforced.

Although international pressure on the government of Sierra Leone reduced the number of "pressure arrests" of ships, the tactic remained effective so long as legal proceedings could be kept in that country.

In Mr Wansa's case, the English Court of Appeal examined the ship owners' evidence and concluded there was a "strong prima facie case" that he had advanced fraudulent claims. He had also attempted to mislead the English courts in affidavit evidence. It concluded that English courts had jurisdiction and so granted anti-suit injunctions *stopping the proceedings in* Sierra Leone. This was possible for two reasons.

First, Mr Wansa had signed contracts that provided for any litigation arising from the contracts to be brought in either the English or Estonian courts.

Second, Mr Ghirardani and a former senior representative of Maersk Line in west Africa had both received death threats. These were made by a man, allegedly sent by Mr Wansa, who approached another Maersk Line official in a Freetown hotel. The threats made any appearance by the lawyer in a trial in Freetown extremely unsafe and difficult, the Court said.

Mr Wansa denied the accusations. However, he was forced to abandon proceedings in Sierra Leone and later dropped his claims in the English courts, so ensuring the issue never went to full trial. All that remains is *for the shipowners to* recover their costs from funds frozen by the Mareva injunctions.


In the docks: shipping lines challenging fraudsters can find their ships arrested and, to their cost, tied up in port for months

LEGAL BRIEFS

IBA poll on plan to liberalise global regulation

The International Bar Association is to vote on three resolutions aimed at the liberalisation of the global legal profession at its council meeting in June. The governing council of the IBA, which represents 173 bar associations around the globe, will vote on: the need for regulators and intergovernmental bodies to recognise the unique role of the legal profession within the global community; general principles governing the establishment and regulation of foreign lawyers; and multi-disciplinary partnerships. The IBA will then make representations to the World Trade Organisation.

Merger will create big regional firm

Thomas Eggar Verrall Bowles and Church Adams Tatham, the law firms, are to merge on May 1, creating one of the UK's largest regional firms. Based in London and south-east England, the new firm will be called Thomas Eggar Church Adams and will have 40 partners and 350 staff.

Book series begins on comparative law

The first in a series of comparative law casebooks, produced by the project Casebooks for a Common Law of Europe, will be launched this week at Gray's Inn, London. The first book covers the comparative law of tort and will be followed by books on contract, administrative and company law. The series is produced by the Institute for Transnational Legal Research at Maastricht University under the general editorship of Professor Walter van Gerven, former advocate-general of the European Court of Justice. The books are designed to aid teaching of European *comparative law and to help* lawyers studying the treatment of parallel problems in other European jurisdictions.

EU DIRECTIVE NEGOTIATING AWAY FROM BUSINESS PREMISES

No guarantee to cancel a contract

European court

A contract concluded by a person not acting in the course of a trade or profession guaranteeing a debt contracted by another person acting within the course of a trade or profession, was not a contract negotiated by a consumer away from business premises under European law, the European Court of Justice has ruled.

Edgar Dietzinger's father ran a building firm to which the Bayerische Hypotheken-und Wechselbank had granted an overdraft facility.

Mr Dietzinger gave a direct recourse written guarantee to cover his parents' obligations to the bank. The contract of guarantee was signed at his parents' home during a visit from an employee of the bank, as arranged by Mr Dietzinger's mother.

In 1993 the bank called in all loans granted to Mr Dietzinger's parents and sued him for more than half the amount of the guarantee. Under the European directive on contracts negotiated away from business premises, consumers are entitled to receive written notice of the right to cancel a contract.

Mr Dietzinger sought to renounce the contract of guarantee he had signed to cover his parents' obligations to the bank on the ground that he had not received written notice of his right of cancellation as provided for by the directive.

After conflicting decisions in the German lower courts, the final German court of appeal found it necessary to refer the matter to the European Court of Justice in Luxembourg, for a proper interpretation of the directive.

The contracts covered by the directive are those under which a trader supplies goods or services to a consumer. The German court asked whether a contract concluded by a person not acting in the course of his trade or profession was covered by the directive.

The ECJ observed that the scope of the directive was not limited according to the nature of the goods or services to be supplied under the contract. The only requirement was that the goods or services had to be intended for private consumption.

The grant of a credit facility was the provision of a service, the contract of guarantee being merely ancillary to the principal contract, of which, in practice, it was usually a precondition.

Furthermore, there was nothing in the wording of the directive that meant the person concluding the contract should be the person to whom the goods or services were supplied.

Consequently, a contract benefiting a third party could not be excluded from the directive on the sole ground that the goods or services were intended for the use of a third party standing outside the contractual relationship.

However, the Court said the directive only covered a guarantee ancillary to a contract where, in the context of "door-step selling", a consumer assumed obligations towards the trader with a view to obtaining goods or services from him.

Moreover, since the directive was only intended to protect consumers, a guarantee only came within its terms where the guarantor had entered into a commitment for a purpose that could be regarded as unconnected with his profession.

As a result, given that the contract guaranteed repayment of the debt by persons acting in the course of their trade or profession, it did not benefit from the right of cancellation under the directive.

C-45/96: Bayerische Hypotheken-und Wechselbank AG v Edgar Dietzinger, ECJ 5CH, March 17 1998.

BRICK COURT CHAMBERS, BRUSSELS

JOHN W. HUNT
ADVISES

The leader that stands apart from the rest

To distinguish themselves, effective chief executives must emphasise their differences while showing their vulnerability

Dear Professor Hunt,
After several years as a director, I have been promoted to chief executive in the same company. I know I have to change, but do I have to distance myself from my former peers – do I have to become a leader in the conventional sense?

Prof Hunt replies:
Effective leaders in individualistic societies accept that they must be different. The spirit of individualism requires role models to which followers can aspire. It is a contradiction in terms to call yourself the chief executive but to be the same as everyone else.

The basis of the difference will vary: people often believe you have to be a forceful personality, such as Lady Thatcher, or Sir John Harvey-Jones, for example.

This model of a leader is a *popular one, but does little* to explain successes in business. Most chief executives are introverts, not extraverts. Some try to learn the part but, unless they are superb actors, they fail.

There is no need to follow *this route.* What is important to followers is that their leader is different: noise is only one way to be different. Most effective leaders in business differentiate themselves on *the basis of experience or a* particular skill.

If a chief executive does not differentiate him or herself then his or her reports will work aggressively to do so and to create a role model they can respect. So vital is this difference that if they cannot detect a difference, they will invent one.

Effective leaders seem intuitively to understand this process. They tell their people that they are different and they behave as if they are different.

They feed the grapevine with information about themselves which *reinforces* this difference: what they think is important, what they do in their leisure time, what their partners and families are doing. Followers collect these data and creatively circulate stories about their leaders.

In this way myths evolve over time as illustrations of the values that are important to that leader and hence to that corporate culture.

The second tactic used by *effective leaders, at the same* time as they establish their difference, is to reduce distance. The two processes occur simultaneously.

Followers extend distance on the basis of information supplied by their leaders; leaders reduce distance by moving closer, psychologically, to their people. They do this by exposing their vulnerability. Every effective leader exposes a flaw, a failing, a weakness. He or she makes no attempt to correct it and, indeed, actively promotes it. By conceding their weaknesses they focus their *followers' inevitable* dissatisfactions on one or two manageable issues.

Selecting and promoting the flaw is an art in itself, and it should not be too obscure. Its purpose is to show that in spite of the differences between leader and the led, our chief executive is really one of us – just another human being with weaknesses like the rest of us, a human being with flaws.

The leader has placed his or her vulnerability on the agenda – it is *open for* discussion. If this is done well, *followers will* invariably come to the leader's aid with statements like: "Well, don't worry, we can do that for you." Together they collude to deal with the flaw.

It also means that communication channels for feedback are opened up. It is feedback that stops leaders believing the myths they generate – it keeps their feet on the ground and keeps dictatorships, where feedback is silenced, at bay.

So, what does all this mean for your new job? First, you need to communicate your *intentions*. What is the picture you have for the future of your organisation?

I am calling it a "picture" deliberately because in my experience very few people have the conceptual skills to visualise a whole corporation in motion. For most people, the picture or vision needs to be simple and immediate.

Do not turn it into an exercise in conceptual brilliance. Vision is an obsession of those at or near the top. It is not a term used by the bulk of the workforce.

Second, you should decide *what it is that has made* you successful so far. What has differentiated you from the rest? Whatever it is that differentiates you should be readily understandable and memorable so you can promote it over and over again. Effective leaders repeat and repeat the same easy messages.

Third, what is important to you about the way the organisation is managed? What are your values, your obsessions? One of a leader's most important roles is to promote a particular culture, to generate shared values. Again, when we listen to *leaders talking* with their followers, they articulate a handful of values that they repeat over and over again, and each value is reduced to a memorable slogan.

Like the differentiator, these values are about everyday issues. Do not try to turn this into something highly intellectual. Most people want a leader who *simplifies*, not complicates, their experience. After all, life is complicated enough as it is.

Next, identify your flaw. Promote it. The leaders who do this well introduce their flaw with a sentence such as: "You know me, I'm not very good at . . ." or "The trouble with me is . . ." and through that admission gain supporters willing to fill the gap.

Finally, leadership is about theatre. The most effective leaders do walk about, do chat with their followers, do ask lots of questions, do make *theatrical* entrances and exits. They rehearse their act in advance; they rarely operate without a plan of how and when they will present their case.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

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For further information, please contact the Joint Administrative Receivers, Nicholas J. Dargan and Angus M. Martin at the address below, or Adrian Berry on 01482 871482.

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For further information, please contact Robert Birchall or Anita Quirke of Coopers & Lybrand, Bull Wharf, Redcliff Street, Bristol BS1 6QR.
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Closing date for return of application form: 17th April 1998.

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LEGAL NOTICES

IN THE MATTER OF NATIONAL EMPLOYERS' MUTUAL GENERAL INSURANCE ASSOCIATION LIMITED
(IN LIQUIDATION) ("NEMGIA")

NOTICE IS HEREBY GIVEN that the liquidators of NEMGIA intend to declare a third interim dividend to the creditors of the company within four months of 30 April 1998. Creditors who have not submitted claims to the liquidators of NEMGIA, PO Box 730, 20 Farringdon Street, London EC4A 4PP, England, by 30 April 1998 will be excluded from this dividend. Forms of proof of debt may be obtained from the liquidators or from policyholders' brokers.

As regards NEMGIA's former branches in Cyprus and Malta, creditors should contact the local liquidator for similar appointed persons to establish their claims. Only to the extent that UK dividends exceed local percentage distributions will creditors be entitled to participate in distributions from UK funds.

A J McMAHON Joint Liquidator
27 March 1998

TECHNOLOGY

WATER IRRIGATION

Dry solution to water loss

Frances Williams on a product designed to reduce evaporation in arid soils

It will not make the desert bloom, but scientists at Nestlé's research centre in Switzerland believe their technique to cut water evaporation in deserts could revolutionise agriculture in the world's arid zones.

Guilford Development, a small Geneva-based company that has bought the patent, hopes to market the product as Guilspare this year after full field trials in Oman.

Results from early trials by Oman's Sultan Qaboos University Agricultural Station show that Guilspare can cut water evaporation from the soil by 75 per cent, halving the amount of water needed to produce crops.

The potential water saving in the Arabian peninsula alone could be 5bn cu m a year, according to Guilford, saving farmers millions of dollars. Other arid areas suitable for Guilspare's use include South Africa, Australia and California where over-irrigation is causing a build-up of salt.

Guilspare's active ingredient is siloxane, a non-toxic biodegradable compound that ultimately turns back into sand. Mixed with water, it can be sprayed on the ground at about a teaspoon *per square foot (75kg-80kg of* active compound per hectare) using standard agricultural spraying machinery. The treatment is repeated on each ploughing.

As Guilspare dries it coats the grains of sand with silicone to create a water-repellent layer that works on a principle similar to that of disposable nappies. Irrigation water, rain, dew and air penetrate the soil but moisture cannot return to the surface to evaporate.

The water is trapped under a dry, weed-repellent surface layer, at a depth that depends on the strength of the treatment. For most crops the treatment raises moisture levels in a layer about 5cm to 20cm below the surface where the plants roots are. The water is fully available to the plants, unlike some water-retaining systems.

Other potential Guilspare applications include desalination of over-irrigated soils, now being tested in Oman, and surface collection of dew, an important water resource in coastal desert regions. Guilspare can be used with another Nestlé-developed product that prevents wind erosion and drift of sandy soils.

A domestic version of Guilspare will go on sale in Switzerland shortly for the houseplants and potplants. A related product waterproofs terracotta pots but allows them to "breathe".

Water loss through terracotta pots is typically twice as great as through the soil. Moreover, the treatment will also stop unsightly discolouration caused by salt deposits left behind by evaporation.

Although Nestlé has decided that the products are too far removed from its core food business to sell itself, its researchers will continue to be involved in development as part of the patent transfer arrangement.

Guilspare can significantly cut water evaporation from desert soil

INTERNATIONAL PEOPLE

Sir Andrew takes role as chairman at Euroclear

Sir Andrew Large, the banker's mandarin, is to become chairman of Euroclear, the world's largest clearing bank.

Brussels-based Euroclear last year handled a record $38,100bn of securities on behalf of its clients, up 10 per cent from 1996. Rolf-Ernst Breuer, the present chairman, will resign from both Euroclear boards because of the demands on his time from his role as spokesman for the board of managing directors of Deutsche Bank.

Sir Andrew, 55, was chairman of the Securities and Investments Board, the chief UK financial regulator, from 1992 to 1997. From 1980 he was a senior executive with Swiss Bank Corporation. He became a member of SBC's main board in 1987.

Euroclear's main priorities will be the advent of the single European currency next year, as well as the transition to real-time settlement. Trades are currently settled at the end of each day, but in parallel with the globalisation of the financial markets, market participants are demanding real-time settlement, where transactions are settled immediately after taking place.

Euroclear is also facing competitive pressure from Cedel, its Luxembourg-based rival. While Cedel remains smaller, with $15,000bn of transactions last year, its growth has been faster than Euroclear's, especially in what are believed to be future growth areas such as triparty repos.

In triparty repos, the clearing banks manage their clients' cash by buying and selling securities against collateral. Triparty repos increased by 40 per cent in 1997 at Euroclear and 105 per cent at Cedel.

Samir Iskandar

Bandle to join Veba

Veba, the Düsseldorf-based industrial conglomerate that is one of Germany's biggest companies, has appointed the first non-German to its management board.

Alain Bandle, 45, is taking over responsibility for the group's fledgling telecommunications activities, which include the o.tel.o fixed-line telecoms group owned jointly with RWE, the Essen-based conglomerate. Ulrich Hartmann, Veba's chairman, has stepped up the group's attempts to internationalise its activities. Last October Veba was listed on the New York Stock Exchange.

Swiss-born, Bandle is currently a senior manager at Hewlett-Packard Deutschland but has previously worked at Procter & Gamble and Swissair. Among his immediate tasks will be negotiating a deal with BellSouth, the US telecoms company that Veba and RWE want to sign up as a partner in o.tel.o.

Meanwhile, Mobilcom, another group seeking to take advantage of the liberalisation of the German telecoms market, has appointed Dieter Vogel, the soon-to-retire chairman of the Thyssen engineering group, as a member of its supervisory board.

Vogel is leaving Thyssen after having failed to win the top job in the company that will be created through the merger of Thyssen with its rival Krupp. Thyssen has also taken a step into the telecommunications industry – although on a smaller scale than Veba. Mobilcom, which re-sells telecoms services, has grown rapidly and claims to be carrying 2.5m minutes of conversations daily via its fixed line service.

Ralph Atkins, Bonn

Bustamante to Telefónica SA

Luis Martín Bustamante, who was recently named chairman of Telefónica de Argentina, is to return to Spain to take charge of the communication group's domestic basic telephony business.

The job change forms part of a corporate reorganisation that re-styles Telefónica de Espana as Telefónica SA, a holding company controlling a diversified and multinational corporation, and which re-defines Telefónica de Espana as a company providing fixed carrier services to Spanish clients.

Posted to Buenos Aires in 1990 when Telefónica acquired its Argentine subsidiary, Bustamante, 43, became the unit's general manager in 1995 and its chairman in December. Over the period Telefónica de Argentina, Tasa, became a jewel in the crown of the Spanish carrier's extensive network in Latin America, claiming the highest phone service penetration ratio in the region and the highest number of lines per employee.

A blue chip company on the Buenos Aires stock exchange, Tasa also branched out into cable TV services and multimedia through ventures with local programmers and companies controlling sport broadcasting rights.

Bustamante's new appointment as chief executive represents a considerable professional challenge because Telefónica's domestic fixed telephony division, which is the group's main revenue earner, faces squeezed margins with the onset of deregulation in the telecoms sector.

Retevisión, a carrier backed by Telecom Italia, launched a competing service in January with an aggressive pricing policy and France Telecom is bidding for a third licence for residential customers that the government is due to award in May. Full deregulation of the Spanish telecoms sector will be introduced in December.

Tom Burns, Madrid

MOVING PLACES

● Robert Elliott, senior vice-president of FEDERAL EXPRESS has been named president of the company's Europe, Middle East and Africa division. He succeeds David Bronczek who was recently promoted to chief operating officer and executive vice-president responsible for *FedEx operations worldwide.*

● John Sharkey, who last year sold his advertising business, BST, has been appointed managing director, Europe, for MANPOWER. John Chait, who developed the post, becomes chairman of Manpower's European operations in addition to remaining managing director, Asia. He is returning to the US *to take on a broader role.*

● AMERICAN MANAGEMENT SYSTEMS, the international business consulting and IT services company, has appointed Christopher Gerlach vice-president and chief administrative officer for European operations. Gerlach joins AMS from Content Holding, where he has been managing director since 1994.

● Yves de France has joined KPMG PEAT MARWICK as director in charge of developing the defence and aerospace sectors. Previously he was sales and marketing director of the IT *and systems division of* Dassault Electronique.

● WALL DATA has announced the appointment of Rick Fox as *vice-president finance, chief* financial officer and treasurer. Prior to joining Wall Data Fox served as senior vice-president of Paccar, responsible for the company's accounting, treasury and information systems.

● LEHMAN BROTHERS has appointed Augusto Lopez-Carlos as senior international economist *responsible for Russia.* Lopez-Carlos joins from the International Monetary Fund. He was the IMF's resident representative in Moscow from 1992 to 1995, during which he acted as a liaison between the IMF in Washington and the Russian government. Lopez-Carlos will be based in London and will report to John *Llewellyn, the company's global* chief economist.

● BIC has appointed Jacques Wool, 43, to the newly-created post of managing director France and Benelux. He will be responsible for co-ordinating the company's paper, lighter and razor activities and brands in the countries concerned. Wool was previously director for Western Europe at Moulinex.

● US investment bank MERRILL LYNCH has appointed former US ambassador to Italy *Reginald Bartholomew chairman* of Merrill Lynch in Italy. The appointment is in addition to Bartholomew's current duties as vice-chairman and managing director of Merrill Lynch Europe Holdings. Merrill Lynch significantly increased its presence in Italy in 1997 with the acquisition of Carnegie Italia.

● German fashion group ESCADA has announced that Juergen Richter will be appointed to its managing board. Richter is the managing partner of the Schneberger Group in Muenster. In his new *position Richter will be in* charge of the German subsidiaries of Escada.

● Jean-Paul Hamon, 49, has been appointed managing director IT and telecommunications of Air France. He was previously managing director and senior vice-president of Amadeus Development and is being replaced in this post by Jacques Lignieres, deputy general manager, development.

● French leisure company CLUB MEDITERRANEE said it had appointed Michel Wolfovski its new finance manager. Wolfovski is the former finance manager of Matra Communication, a joint subsidiary of Lagardere and Northern Telecom.

● NEWS CORPORATION has appointed Joe Kiener to the *newly created position of* president and chief operating officer of News America Publishing Group. Kiener will report to Anthea Disney, the chairman and chief executive of NAPG.

● SWISS RE LIFE & HEALTH, a specialist global division of Swiss Reinsurance Company, has promoted Ann Godbehere *to divisional chief financial* officer. She joined the divisional executive board at the end of 1997. Based at Swiss Re Life & Health's headquarters in London, Godbehere is responsible for all aspects of global financial management.

● ABN AMRO has announced that Tariq Rafique has joined its International Securitisation Group. He will join as managing director and head of Latin American Securitisation and will be based in New York. He was previously managing director and head of Latin American and international structured finance at Standard & Poor's Ratings Group in New York.

● Xavier Oliver has become the president of the EUROPEAN *ADVERTISING AGENCY* ASSOCIATION. Oliver is the chairman of the BBDO Group in Spain.

● SLC ASSET MANAGEMENT, the UK subsidiary of Sun Life Assurance Company of Canada, has appointed Jacqui Sokolowski marketing director, reporting to Paul Sharman, managing director of SLCAM. *She joins from Henderson* Investors, where she was divisional director with responsibility for marketing planning and strategy.

● CITRIX SYSTEMS has appointed Michael Wendl managing director of the company's new European headquarters, which opened in February in Munich, Germany. *Wendl will oversee Citrix* operations for Europe, The Middle East and Africa. Prior to joining Citrix, Wendl was director of Conner Peripherals' European OEM business.

● EUROPCAR, the car rental group, has announced a new management structure for its UK subsidiary following the acquisition of BCR Car & Van Rental. Terry King-Smith, *former* chairman and chief executive of BCR, will become joint chairman and managing director *of Europcar UK.*

David Ashfield has been re-confirmed as finance director, while Doug Sawers retains his position as operations director and, Stephen Jones marketing director. Paul Batchelor, previously commercial director at BCR, has been appointed sales director and John Newman, *formerly operations* director at BCR, becomes fleet director.

● DELL EUROPE, MIDDLE EAST AND AFRICA, part of the Dell Computer Corporation, has appointed Maggie Miller, 41, *vice-president, information* systems technology. Miller joins Dell from First Choice Holidays.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

هكذا من الأصل

An escape into the imagination

ART

LYNN MACRITCHIE

Ilya and Emilia Kabakov
The Palace of Projects

For 20 years, the Russian artist Ilya Kabakov occupied an old attic studio high above Moscow, accessible only along a pathway of planks laid out over the roof beams. By day, he worked in his official job as an illustrator of children's books. In the evening, friends gathered in the studio, giving secret "exhibitions" of their work, which the Soviet authorities would not permit to be shown in public.

His attic, then, was a kind of prison, but it was also a place of escape, at least for the imagination. Talking in their present home on Long Island, Kabakov's wife and working partner Emilia describes the old studio as "a kind of heaven, because it was hell outside". Since arriving in the west in 1988, Kabakov, 65, has carried his visions of heaven and memories of hell about with him, recreating them in a series of installations.

In 1993, he subverted the Russian pavilion at the Venice Biennale by turning it into a building site. In 1995, he did the same with the lower floors of the Pompidou Centre in Paris, transformed into the long abandoned foundations of a never-to-be-finished "City of the Future". Now, the Roundhouse, at Chalk Farm in London, is the site of "The Palace of Projects", commissioned by Artangel and Kabakov's first work to be seen in England since 1989.

In this bleak old railway shed, the air chilled with more than a century of damp, an extraordinary structure rises. Gleaming in the dim interior, a fabric and wood tower spirals upwards, like the white shell of an enormous snail. Inside, on a clutter of wooden tables, are spread out the "Projects", 65 in total, each the cherished brainchild of a cast of characters as diverse as their dreams.

L Stachovich, violinist, Moscow, wants to redistribute energy over the earth's surface by bouncing it back off panels in the sky; N Sokol, researcher, Minsk, has designed a raincoat which lets the wearer commune with the natural world; V Mikhailov has invented a pump which directs a jet of air into heaven to manage the clouds...

These grand schemes are complemented by smaller, more domestic conceits – a punishment corner for misbehaving utensils, a bed surrounded by plants to give the illusion of sleeping in a beautiful garden, a wardrobe fully furnished with bed, desk and books where the user can rest and study.

The plans for each project are drawn up in meticulous detail, their concepts and hoped for effects described at length and demonstrated by the table-top models of wood and wire and foam, their precarious construction reminiscent of the school room.

In previous works, Kabakov has used "humble objects which can be bought anywhere", as he describes them, to make enormous installations such as "In the Communal Kitchen", 1993, which evoked the experience of living in the apartment blocks in which he and his neighbours endured the Soviet attempt to create utopia. His drawings of the 1960s and 1970s often show people floating in the sky, high above the crush of city streets and crumbling buildings.

Kabakov the artist could escape his cramped surroundings into his imagination, disappearing through his pictures into the infinite spaces of the sky. Now living in the "freedom" of the west, his work has become more personal – he has lately used images from both his and his wife Emilia's family photograph albums in installations – and also more universal, the "Palace of Projects" as a site of dreams we all might share.

From Long Island, he described his working method. "I am indifferent to materials," he said, Emilia translating from Russian. "I don't expect anything special from them. My attitude to location is just the opposite – I am enormously sensitive to space..."

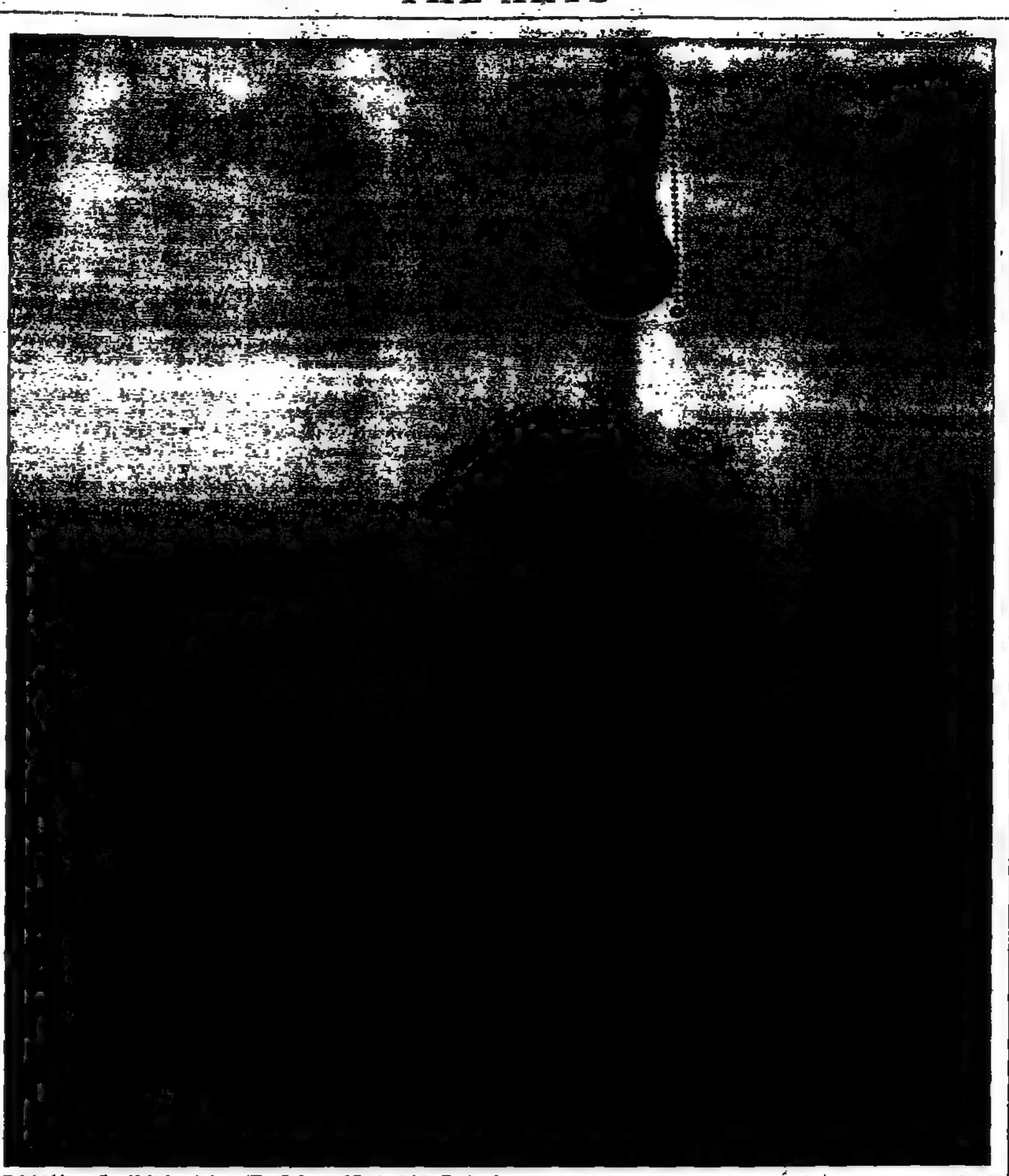
He said that working at the Roundhouse was "risky" as the building, however spectacular, did not have the cultural resonance he values so highly. "In museums, people feel culture all around them."

In the event, however, it has come off. His flimsy palace brings its own culture with it, recalling similar edifices built and unbuilt, from London's Crystal Palace to Tatlin's Monument to the Third International, never realised but never forgotten. Inside his palace's rickety superstructure, his favourite characters, ordinary people, the "little men", live through whatever history throws at them, consoled by their private dreams.

"At the beginning of this century, there was an explosion of ideas, universal utopias in every field," he said. "Some remained fantasies, and some were realised ... We are the victims, the witnesses of these fantasies... Now, people can look at these projects and as they respond to the ones which most interest them, perhaps they will realise that the person who imagined it is not crazy, but could be themselves."

The Kabakovs, survivors of the Soviet utopia, know better than most both the liberating power and potential danger of the human imagination.

Ilya and Emilia Kabakov, "The Palace of Projects", The Roundhouse, Chalk Farm Road, London NW1, until May 10. Open Tuesday-Sunday, 12-8pm. 0171-336 6803. Commissioned by Artangel and the Museo Nacional Centro de Arte Reina Sofia, Madrid.



Bright ideas: Ilya Kabakov brings 'The Palace of Projects' to England — Peter Rebeig

Big, brash, but not always better

THEATRE

IAN SHUTTLEWORTH

Saucy Jack and the Space Vixens

Heraclitus remarked that one cannot cross the same river twice. No musical act can ever truly be "the new Elvis", "the new Beatles" or "the new Dylan"; no television docudrama can be "the new *Cathy Come Home*". (*Titanic* – the new *Gone With The Wind* – is the exception that proves the rule.) Once ground has been broken, it cannot be broken anew a second time. *Saucy Jack And The Space Vixens* can never be the new *Rocky Horror Show*.

True, it has grown like Richard O'Brien's monster from modest beginnings (in this case, as a student show from the University of Kent in Over-Seas House on the 1995 Edinburgh Fringe); true also, its book and lyrics contain the kind of effortless camp lewdery that O'Brien has been unable to reattain for the last two decades – the action takes place in a seedy cabaret bar on the planet Frottage III, where a group of intergalactic crime-fighters (the Space Vixens) arrive to track down the vicious Slingback Killer, who – yes – stabs his victims with a sequinned shoe.

But at other times it simply tries too hard: the song "Fetish Number From Nowhere" is clearly a blood relative of *Rocky*'s "Sweet Transvestite", and Dr Whackoff's spoken coda tells us almost in as many words, don't dream it – be it.

The ethos of the show is glam, but 1970s disco-glam rather than the raucous yobbery of glam-rock proper, with song titles such as "Glitter Boots Saved My Life" and "All I Need Is Disco". The writers manage to cram in allusions to "Don't Cry For Me, Argentina" and two separate Gloria Gaynor songs within a single number. (Against this, at one point, James Compton and his band dispatch a very serviceable Dave and Ansil Collins-style bluebeat stomp.)

The performers wear those little microphones that curl around the side of the face. They could have gone for more unobtrusive devices, but these look more futuristic, don't they? The sound mix for the early part of the press night was dire, with vocals semi-audible and musical dynamics lost beneath the beat – you couldn't even hear the *Shaft*-esque "chuck-a-wah" guitar properly.

As Jack, David Schofield is in no doubt that subtlety should be left at home with a good book, and not tolerated within the precincts of the Queen's Theatre. David Ashley struts his transgendered stuff with aplomb as would-be Vixen Booby, and Daniel Wexler's Sammy combines appealing wimpishness with no mean sax-playing ability.

Director Keith Strachan gives us the lot – wild flashing lights, Kirby wires, a fan dance... you name it. But there is something unappealing about watching people strive with such steely determination. Underneath it all, they are not just serious – they are earnest. When Schofield tells himself, "Saucy Jack, you're a naughty one," he is quoting from *This Is Spinal Tap*; the line gets a moderate laugh of recognition, but Rob Reiner's film works so beautifully because it underplays much of the ludicrousness.

Bigger and brasher is not necessarily better. *Saucy Jack* will do modest to respectable business because it offers a couple of hours of a familiar kind of fun, but only the pretence of real extravagance or liberation.

Saucy Jack and the Space Vixens, Queen's Theatre, London.

Disco-glam: Hannah Waddington in 'Saucy Jack' — Alastair Muir

Tackling the true romantics

MUSIC

ANDREW CLARK

Riccardo Chailly and the London Symphony Orchestra/John Eliot Gardiner and the Philharmonia

The international reputation of Riccardo Chailly draws strength from his 10-year link with the Royal Concertgebouw Orchestra, but does not depend on it. That much is obvious from the sizeable following he has developed for his concerts with the London Symphony Orchestra.

His latest visit, culminating in a performance of Bruckner's Eighth Symphony at the weekend, offered some clues to his appeal – without providing a convincing explanation. Chailly has two formidable advantages over most conductors of his generation: he *knows how to get what he* wants from an orchestra, and he is a musician of transparent integrity. Whatever reservations his Wagner and Bruckner may have aroused, these qualities shone through every bar.

The first concert was a pairing of funeral rites – Mahler's *Totenfeier* and the last part of Act 3 of *Götterdämmerung*. *Totenfeier* is the original first movement for Mahler's Second Symphony – broadly similar in structure and mood to the final product, but less incisive. Chailly made it every bit as *imposing*, thanks to the vehement responses of the LSO strings, which sounded more precise and alert than in recent concerts under *Rostropovich and Davis*. But it was also a question of Chailly's structural control, *moulding the accelerandos* and *rallentandos* in such a way that you couldn't tell where one began and the other ended.

In the Wagner, Chailly's Germanic sympathies deserted him. Here was an Italian conductor reverting to type – emphasising colour and *cantilena* at the expense of dramatic thread. *Siegfried's Funeral March* was a muted lament, neither dark, brutal nor tragic; the Immolation Scene was immaculately "sung", without coming across as elevating or cataclysmic. In Jane Eaglen's Brunnhilde, Chailly found a soulmate: the sound *per se* was thrilling, but there was no intensity or conviction. Chailly has yet to conduct Wagner in the theatre, and it shows.

In Bruckner's Eighth, the *ingredients of a great performance* were all there – weight, majesty, unhurried evolution, topped off by the LSO's fat and flattering tonal resources. *Chailly* spoiled everything by taking the first three movements at unusually slow speeds. The opening Allegro moderato was too self-absorbed to generate a sense of unfolding *tension. The second movement* came across as a ponderous plod rather than an exuberant scherzo, while the Adagio had a saccharine luxuriance that could have wafted in from Torre del Lago. After that, Chailly's edge-of-the-seat finale belonged to a different symphony – or at least a different performance.

Between Chailly's two concerts at the Barbican, John Eliot Gardiner conducted the Philharmonia at the Festival Hall in Elgar's *In the South*, Sibelius's Violin Concerto (an engagingly gypsy-like performance from Gidon Kremer) and Brahms's First Symphony. The change of atmosphere from Chailly's concerts could not have been more striking. Where the LSO had been willingly led, the Philharmonia sounded like a horse being whipped round a racecourse.

According to the programme, Gardiner's series with the *Philharmonia* is designed to "display his talents as a distinguished interpreter of... Elgar". Who is fooling whom? Perhaps we are being softened up for a Gardiner/Elgar recording project, because until this series, Gardiner had scarcely conducted Elgar. *In the South* was subjected to the full blast of his whizz-bang-wallop treatment: it was drilled, noisy and inflexible; the cumulative glow of Elgar's crescendos smothered by four-square phrasing, the balmy reflective passages swept by a stiff northern breeze.

In the Brahms, Gardiner's breakneck pulse for the opening sequence, followed by a knee-jerk transition to the first movement repeat, demonstrated a similar sort of rigid frigidity. There was simply no space for the sound to come out. The middle two movements allowed some relaxation, for which we must thank the Philharmonia's wind principals; the finale was a graceless sprint.

Unlike Mackerras and Norrington, Gardiner does not transfer well from the hot-house conditions of period ensemble and recording studio to the real world of symphony orchestras; and he is crudely insensitive to the shape and style of romantic music.

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet: Romeo and Juliet. Rudi van Dantzig's 1967 version, *created for the DNB and set* to Prokofiev's score. With sets and costumes by Toer van Schayk; Apr 1, 2, 3, 4, 5

BERLIN

DANCE
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Tanzstunden: ballet triple bill, to *music* by Henze. Le Disperazioni del Signor Pulcinella, with choreography and sets by Dieer Heitkamp; Le Fils de *l'Air ou l'Enfant Changé en Jeune* Homme, in a staging by Henze with choregraphy by Marek Rozycki; and Labyrinth, by Mark Baldwin; Apr 2, 4

OPERA
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Die Meistersinger von Nürnberg: by Wagner. Harry Kupfer's new production is conducted by Daniel Barenboim and Sebastian Weigle; Apr 5

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
● Don Carlo: by Verdi. Co-production with the Grand Théâtre de Genève, conducted by Eliahu Inbal in a staging by Andrei Serban; Apr 1, 3, 5
● Il Campiello: by Wolf-Ferrari. New production conducted by Bruno Bartoletti in a staging by Nanni Garella, with designs by Antonio Florentino; Mar 31

BRUSSELS

CONCERT
Palais des Beaux-Arts
Tel: 32-2-507 8200
Rotterdam Philharmonic Orchestra: conducted by Valery Gergiev in works by Debussy, Mussorgsky and Prokofiev. *With baritone Dmitri* Hvorostovsky; Mar 31

FRANKFURT

CONCERT
Alte Oper
Tel: 49-69-134 0400
Joan Rodgers: recital by the soprano, accompanied by Roger Vignoles; *Mozart Saal; Apr 5*

GENEVA

CONCERT
Victoria Hall
Tel: 41-22-3170017
Orchestre de la Suisse Romande: conducted by Heinz Wallberg in works by Hindemith, Schumann and *Brahms*; Apr 1

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Mikko Franck; Apr 1, 4

LAUSANNE

CONCERT
Théâtre de Beaulieu
Tel: 41-21-643 2211
Orchestre de la Suisse Romande: conducted by Heinz Wallberg in works by Hindemith, Schumann and Brahms; Apr 2

LISBON

CONCERT
100 Days Festival, Expo '98
London Symphony Orchestra: Riccardo Chailly conducts concert performances of Mahler's Totenfeier and the closing part of Act 3 of Wagner's Götterdämmerung. With sopranos Jane Eaglen and Janice Watson; Coliseu; Apr 1

LONDON

CONCERTS
Queen Elizabeth Hall
Tel: 44-171-960 4242
English Chamber Orchestra: conducted by Raymond Leppard in works by Debussy, Shostakovich, Satie and Bizet. With piano soloist Alexander Melnikov and trumpet soloist Sergei Nakariakov; Apr 1

Royal Festival Hall
Tel: 44-171-960 4242
● Bamberg Symphony Orchestra: conducted by Ingo Metzmacher in works by Bartók and Mahler. With violin soloist Viktoria *Mullova*; Apr 1
● Philharmonia Orchestra: conducted by Leonard Slatkin in works by Rimsky-Korsakov, Prokofiev and Rachmaninov. With piano soloist Nikolai Lugansky; Apr 2
● London Philharmonic Orchestra: conducted by Ingo Metzmacher in works by Debussy, Turnage and Stravinsky. With saxophonist Martin Robertson; Apr 3

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
The Tales of Hoffman: by Offenbach. New production by Graham Vick, designed by Tobias Hoheisel and conducted by Paul Daniel/Willem Lacey. Cast includes John Tomlinson; Apr 3

LUCERNE

CONCERTS
Easter Festival
Tel: 41-41-226 4480
www.LucerneMusic.ch/
● Concentus Musicus Wien: conducted by Nikolaus Harnoncourt, with the Arnold Schoenberg Choir, in works by Haydn; *Jesuitenkirche*; Apr 1
● Orchestra of the Age of Enlightenment: conducted by Frans Brüggen in works by Bach. With soprano Lynne Dawson; Jesuitenkirche; Apr 2
● Munich Chamber Orchestra: conducted by Karl-Friedrich Beringer, with the Windsbacher Knabenchor, in Bach's Mass in B minor; Jesuitenkirche; Apr 3
● The English Concert: Trevor Pinnock conducts Bach's St. John Passion, with soloists including tenor Ian Bostridge; Jesuitenkirche; Apr 4
● Thomas Zehetmair: recital by the violinist of works by Bach; Franziskanerkirche; Apr 4

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Linda di Chamounix: by Donizetti. Co-production with Vienna Staatsoper conducted by Roberto Abbado in a staging by August Everding; Apr 1, 3

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● *Bavarian Radio Symphony* Orchestra: conducted by Lorin Maazel in works by Ravel, Barber and Stravinsky; Apr 2, 3
● Rundfunkorchester des *Bayerischen Rundfunks: conducted* by Garcia Navarro in extracts from operas by composers including Puccini and Wagner. With soprano Gabriele Schnaut; Apr 5

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Lohengrin: by Wagner. New production by Robert Wilson, with costumes by Frida Parmeggiani; Apr 2

New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Emmeline: premiered in Santa Fe in 1996, Tobias Picker's opera is presented here in the same production by Francesca Zambello, with sets by Robert Israel. Based on Judith Rossner's novel, J.D. McClatchy's libretto is a version of the Oedipus myth set in New England. The cast includes Patricia Racette and the conductor is George Manahan; Mar 31; Apr 4

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Yuri Ahronovitch in works by Weber, Bruch and Dvorák. With violin soloist Roland Daugareil; Apr 1, 2

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: Stanislaw Skrowaczewski conducts Elgar's Violin Concerto, with soloist Pinchas Zukerman. The programme also includes works by Wagner and Shostakovich; Apr 1, 2, 3, 4

EXHIBITION
San Francisco Museum of Modern Art
www.sfmoma.org
A. G. Rizzoli: Architect of Magnificent Visions. More than 80 drawings by the draftsman who spent his evenings and weekends *making plans for a perfect world*. This is the first museum survey of these meticulous drawings, which were discovered after his death; to Jun 23

WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Alexander Calder (1898-1976): around 250 works, including drawings and jewellery as well as some of the best examples of Calder's formally innovative sculpture; to Jul 12

TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
Monday to Friday, GMT:
08.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

The mommy state

The UK government's passionate belief in getting people off welfare is creating a new subsidised industry: childcare

Why does it make sense to make large sums available to mothers, on the condition they do not look after their own children? If you find the answer obvious, read no further. If not, you too may be struggling to understand the occasionally strange world of the UK's New Labour government.

Imagine two British lone parents, Jean and Jane, each with two children. As parents on a form of welfare called income support, they will receive, from next November, £79.95 ($133.43) a week. Now suppose, they become registered childminders. They arrange look after each other's children. Jean promises to pay Jane £150 per week for full-time care of hers; Jane promises to pay Jean £150 a week in return. The upshot is shown in the table. Each would receive a working families tax credit of £171.65 a week from a kindly government. Each would also receive £23.25 in child benefit and would pay the government £18.81 in tax and National Insurance. Their income would be £176.08 a week, after netting out the cheques for childcare, nearly £100 a week more than from income support.

The childcare subsidy makes all the difference. Without the subsidy, the net income of the two women from this arrangement would be only £71.08 each. Given the subsidy, however, both are better off than before, which makes them happy; and both are "working", which makes the UK government happy.

What is one to make of this? If you think it makes sense, it must be because you think looking after someone else's children counts as working and looking after one's own is shirking. If you do not share that assumption, then the arrangement will not seem sensible and you might ask why not subside a parent to look after her own children, rather than someone else's.

This particular example has been sharpened for effect. But the underlying point stands even if you take a slightly more complex, and more realistic, case. Think, for example, of a situation in which each woman earns £150 a week in an old people's home and then pays Joanna £150 to look after her children. Again, the childcare subsidy makes the arrangement profitable. Each woman earns £150 a week, but receives £326.08, including working families tax credit. Again, each enjoys an income of £176.08, after deduction of the £150 in childcare costs.

The conclusion must be that the incentive to "work" provided by the childcare tax credit is overwhelming. As in the US, the UK government wants to get people to work, and the answer is childcare. The subsidy is likely to push a great many women on benefit who now look after their own children into work. In retrospect, this credit may well be viewed as the most important feature of the Budget. The Treasury estimates the total cost of the working families tax credit, including the childcare subsidy, at £1.35bn by 2000-01, from an indexed base. Rather more plausibly, the Institute for Fiscal Studies suggests the cost of the childcare credit alone may rise to £4bn, as parents realise how generous it is.

The government is creating a new subsidised industry: childcare. It is doing so in two senses: it is providing heavy subsidies to this activity and these subsidies are conditional on use of formal rather than informal care. Instead of being looked after by a grandmother, relative or friend, children will now be looked after by registered minders.

The question is why so generous a subsidy should be sensible. If someone can earn only £150, but needs to pay someone else £150 a week to allow her to do so, total output is not increased at all, since the money she has to pay for childcare is a measure of lost output elsewhere in the economy.

There are two arguments in favour of the subsidy. The first is that it makes mothers better off. But if the aim is to raise mothers' income it would be more effective – and would show more respect for their freedom of choice – simply to give them money with which to buy childcare or something else, as they choose. The rhetoric about "affordable childcare" confuses the issue. Childcare is intrinsically expensive. What people mean by "affordable childcare" is childcare someone else pays for. The labelling may be an effective way of concealing the transfer; it does not change the fact that mothers' higher incomes are a direct result of a subsidy.

The other argument in favour could be called "maternalist": women need to be cajoled into working. Work may be deemed more dignified than full-time motherhood, even if it consists of doing for someone else's children what one would otherwise do for one's own. More cogently, women lose valuable skills – and future earnings opportunities – if they cease to work. Provided they are unaware of this or are unable to finance childcare during motherhood, it may make sense to subsidise childcare.

Yet the argument about foregone skills is far more cogent for relatively skilled mothers than for those Mr Brown's subsidy helps most. This was pointed out in a study of the economics of childcare by the IFS for the UK's Equal Opportunities Commission.* But if the government had really wanted to preserve and develop mothers' skills, it would been better off subsidising national childcare for all – as in France – or making the cost of childcare tax deductible. Mr Brown did not proceed down either route for two reasons: he was more concerned about poverty and workless households on benefit; and he did not wish to incur the expense.

This childcare subsidy should be understood as a politically correct transformation of the parental role of the benevolent state. Hitherto the state has played the breadwinner role on behalf of lone parents, who head more than fifth of all British households with children. Now, as Melanie Phillips has argued in a pamphlet for the London-based Social Market Foundation, it will pay registered childminders to look after their children instead, allowing the parents to fill the breadwinner role.** To a government with a passionate belief in the dignity of work, this transformation of the state's responsibilities makes evident sense.

When the government withdrew lone-parent benefit, it was excoriated by feminist opinion. This can now be seen to be grossly unfair. Mr Brown has done more than his bit to further the liberation of women.

The reason is simple. In contemporary theory and practice, a family is a unit of a mother and children. Men are optional extras. Family benefits "belong" to the mother, since it is she who determines the family's shape. By making more generous a benefit system that helps poorer families with children, particularly with the cost of childcare, the government is boosting the resources available to mothers and improving their ability to dispense with men and full-time motherhood. At the bottom end of the income distribution at least, Mr Brown is promoting a matriarchy.

The most intriguing part of the reaction to the Budget is how little questioning of this there was, even where the policy seems quite peculiar, as in the huge subsidy to formal childcare. Old Labour may be dead; but it is New Feminism that has most obviously triumphed.

**The Impact of Subsidising Childcare, Alan Duncan, Christopher Giles and Steven Webb, Equal Opportunities Commission, 1995*

***The Sex Change State, Melanie Phillips, Memorandum Number 30, Social Market Foundation, October 1997*

Martin.Wolf@FT.com

Mr Brown's generous childcare

Lone parent, working full-time, earning £150 per week, with two children under 11, paying £150 childcare

	£
Earnings	150.00
National insurance	-8.60
Gross income tax	-10.22
Net income	131.18
Basic tax credit	48.80
Two child tax credit	29.70
30-hour credit	10.80
Childcare credit (70% of £150)	105.00
Less 55% of excess of net family income over £90 income	-22.65
Working families tax credit	171.65
Child benefit	23.25
Total	326.08
Total after childcare	176.08

Source: HM Treasury own calculations

LETTERS TO THE EDITOR

US cheered but not complacent

From Mr Harry L. Freeman.

Sir, While we in the US are used to much criticism, some valid, usually well meant, and some less than valid, I take exception to some of the principal points raised by Professor John Gray. His Personal View (March 23) is critical of the US as he alleges we Americans have "discovered the secret of a new macro-economic paradigm".

This paradigm, which Americans now enjoy and are allegedly seeking to export, will surely eliminate recessions, and guarantee low unemployment, low inflation and perpetual growth since the business cycle has disappeared in US economic thinking. And this is the model, Gray asserts, that Americans believe should be emulated by all countries in the world which will no doubt reach the same stage of nirvana as the US now most assuredly enjoys.

This is a classic straw man argument. Most American economists do believe that some of the economic ground rules are in the process of change, but we are far from evolution to some new "no bad news" paradigm. We do hope our present prosperity can be sustained indefinitely, but most of us won't bank on it. And we are cheered by the latest economic statistics, which show improvements in the equality of income and wealth sharing. But we also recognise we have a job to do in bringing along those who have not shared in our prosperity.

As for the ideology we export, yes there are some Americans who argue for strict emulation. But most Americans would seek to send out a relatively simple message: over time, history has shown that progress towards democracy and human rights and progress towards economic freedom are indivisible goals.

The US has its unique history; other countries have their own unique qualities. Please, give us the benefit of being more tolerant and sophisticated.

Harry L. Freeman,
4708 Dorset Avenue,
Chevy Chase,
Maryland 20815, US

Threat still posed by Syria is ignored

From Lord Stone of Blackheath.

Sir, Your contemptuous dismissal of Israel's offer to withdraw from its security zone in south Lebanon is astonishing ("Netanyahu's diversions", March 27). The rebuilt Lebanese army is now capable, possibly augmented by UN or other international forces, of imposing order along Lebanon's southern border. Left to itself, the Lebanese government would probably do just that, to the great and lasting benefit of both countries.

Syria has vetoed such an arrangement, and you have no apparent qualms about this. Nor, it seems, are you troubled by Syria's 30,000-strong army of occupation in Lebanon and blatant subjugation of Lebanese interests to those of Damascus.

Memories are short, but some readers will recall that it was Syria's president, Hafez Assad, who rejected a reported offer from the late Israeli prime minister, Yitzhak Rabin, to withdraw from the Golan Heights.

On the Palestinian economy, there are two conditions that deter trade. One is the closures caused by threats to Israel's security. The other is that businesses are reluctant to trade where it is clear that half of the national budget is regularly lost in corruption and waste.

While Israel has its part to play, both of these impediments could be lessened by efforts of the Palestinian administration.

Stone of Blackheath,
House of Lords,
London SW1A 0PW, UK

Worrying rejection of control mechanism

From Mr Peter Stephens.

Sir, On the day when the European Monetary Institute pronounced on the 11 applicants' suitability to join Emu ("Brussels backs 11 countries for single currency in 1999", March 26), it was interesting to examine what is happening "on the ground". Ireland is experiencing an unprecedented property boom. Yet, on January 1 1999, Irish interest rates are going to converge with Emu short rates and halve. So the current boom will become an explosion!

Countries may be satisfying the Maastricht criteria, but asset price inflation was not one of them. How can a responsible government discard the only mechanism for controlling asset inflation-interest rates? Emu is going to happen because Emu is going to happen. The benefits seem hazy and the pitfalls obvious, yet countries are blithely entering Emu relying on Helmut Kohl's assurances of its ultimate success.

We shall see.

Peter Stephens,
62 Cranmer Court,
London SW3 3HW, UK

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

Embarrassment of riches

As Germany's carmakers pile into the luxury end of the market, Haig Simonian asks if there are enough wealthy buyers to go round

The market for "super-luxury" cars will change more in the next five years than in the previous 50. The first step is the sale of Britain's Rolls-Royce Motor Cars, for decades the epitome of luxury motoring, to Bayerische Motoren Werke of Germany. It will not be the last.

Instead of just Rolls-Royce and Bentley – the two brands being sold by their parent company, Vickers – the world's wealthiest people could soon find themselves facing an embarrassment of riches when looking for cars costing £100,000 ($167,000) and more.

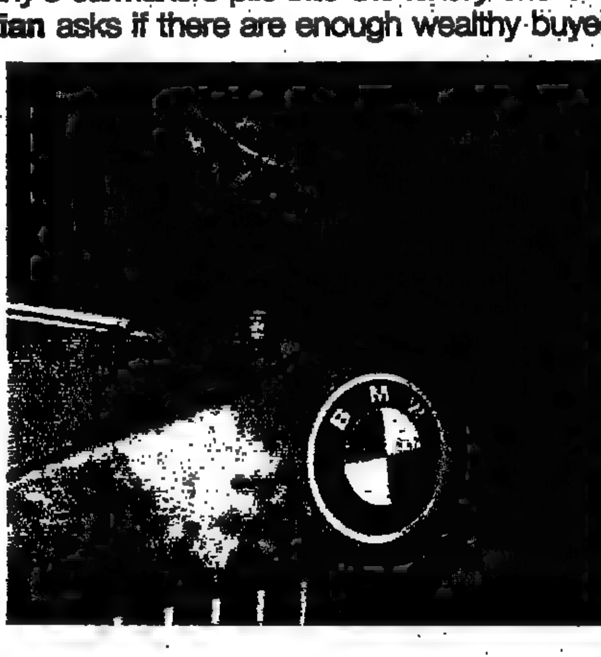
Rolls-Royce itself will undergo a massive expansion and at least two other carmakers say they will muscle into the market. That could triple the number of brands in the "super-luxury" league and multiply the range of models by even more. But who on earth will buy all these cars?

The big expansion is coming from Germany. Bernd Pischetsrieder, BMW's chairman, has suggested that his company could spend up to £1bn on two Rolls-Royce models which would raise output to 6,000 cars a year from just under 2,000 and double the current workforce over the next decade.

Half that spending would probably be for the Bali – Rolls-Royce's codename for the replacement for its ageing Bentley Continental sports car range. The remainder would be for the Java, the "medium-sized" Bentley concept car premiered at the 1994 Geneva motor show but never developed owing to lack of funds and uncertainty about the long-term market potential. Given the fate of the Asian market for luxury cars, these codenames, which are Indonesian islands, are bravely chosen.

Rolls-Royce will not have the "super-luxury" league to itself. In a matter of weeks, Mercedes-Benz, the German executive cars group, is almost certain to authorise the development of the Maybach – its own contender.

Unveiled at the Tokyo motor show last October, the massive Maybach, which looks like a boat on wheels, revives one of Germany's most famous brands.



Even Volkswagen, the company created by the Nazi leaders who so favoured those large limousines, wants to move into "super-luxury" market. Unfazed by the apparent contradiction between its populist image and "super-luxury" aspirations, Ferdinand Piëch, VW's chairman, wants to push into the priciest bracket of the motor industry.

Last week, Mr Piëch said he hoped VW would soon have two "super-luxury" brands. He meant Rolls-Royce and Bentley – for which VW unsuccessfully bid. However, he indicated that the group would develop its own brands if it failed to win the British pair.

The amount of time and energy Germany's three leading carmakers have expended on their 'super luxury' ambitions seems at odds with the limited market potential for such cars

The amount of time and energy Germany's three leading carmakers have expended on their "super-luxury" ambitions seems at odds with the limited market potential for such cars. "VW churns out more Golfs a day than the number of cars we build in a year," says Graham Morris, Rolls-Royce's chief executive.

Even allowing for some growth to reflect rising affluence, the market for "super-luxury" models is tiny. Rolls-Royce Motors Cars sold just 1,918 cars last year. Its new model, the Silver Seraph – launched last month – will raise sales only to about 2,600 over the next three years.

And that is about the total size of the market at the moment. Apart from Rolls-Royce's own saloons and saloon-like sports cars, super-expensive car manufacturing is restricted to a handful of Italians, led by Fiat's Ferrari subsidiary, and some sports car exotica.

So is the market about to take off? Not according to Rolls-Royce executives. They think it will always be small. Richard Charlesworth, head of external relations, says Rolls-Royce owners already have an average 5.9 cars in the garage (one, perhaps, for each day of the week and leaving Sunday for the chauffeur to wash them all).

Although the price may not be a disincentive for plutocrats, environmental hostility to gas-guzzlers and a growing sense of political correctness about big cars in general may be. And while mature markets offer limited potential, Asia, once much touted as a future Eldorado, has lost its lustre after last year's turmoil. Most of Rolls-Royce's sales are in Europe and the US. The UK, usually the company's biggest market, accounted for 878 vehicles last year, followed by the US with 438 and continental Europe with 397.

So why are the German carmakers piling in? Each company has reasons which make sense from its own point of view. The arguments of BMW's Mr Pischetsrieder look the most plausible. As the company already supplies the engines, and much of the technological gubbins, for Rolls-Royce's new saloons, it can at least claim some synergy from the acquisition.

Jürgen Schrempp, the tough-talking chairman of Mercedes-Benz's parent company, is equally confident about the Maybach. "To some extent, a new model will create extra demand," he says. "I assure you we have no intention of losing money with this car."

VW's plans are hardest to fathom. Mr Piëch has said he is determined to develop the group's range upmarket. Such vehicles offer much fatter profit margins than VW's volume models. Buying Rolls-Royce would have provided a "super-luxury" brand on top of the new luxury models and had a "halo effect" on the overall VW image.

All these arguments may make sense to the individual carmakers, acting on their own. But it is less clear that the advantages are so great given that the companies are all acting together.

The danger for the "super-luxury" league could be exactly the same as the one that already affects the humble market niches which companies are driving upmarket to escape: too many models chasing too few customers.

While the numbers of "super-luxury" vehicles sold will be just a fraction of those at the low-margin end of the market, the aspirant "super-luxury" manufacturer may soon discover that overcapacity can affect it just as much as in any other business.

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
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Le mal français

Something is profoundly amiss in the state of France. Among the symptoms are a high level of unemployment, even by European standards, and the growing strength of extremist political parties, especially the far right National Front.

Things would not have reached this pass if France's mainstream conservative parties, which held power from 1993 to 1997, had really set about liberating the French private sector from the burdens the state had imposed on it over the previous four or five decades – especially those which make it risky and expensive to create jobs. They did not do this, partly because many of their leaders are still imbued with France's traditional *dirigiste* culture, and partly because they fell into the trap of engaging in a populist race with each other in the 1995 presidential election.

In this month's regional elections many conservative voters took their revenge, transferring their votes to Jean-Marie Le Pen's National Front, regarded by other parties as racist and therefore unacceptable as a political ally. The right was split. Having lost power at the national level last year, it now faced the prospect of losing it at regional level throughout the country, unless mainstream right and extreme right joined forces in regional councils. A much larger number of conservative regional presidents than expected decided, against their parties' instructions, to maintain themselves in power by accepting NF support.

Lionel Jospin, the Socialist prime minister, can hardly conceal his delight at the right's discomfiture, while President Jacques Chirac is trying to *respond* to it by proposing, belatedly, a "modernisation" of France's political institutions.

Yet the problem is *not mainly* one of institutions. It is partly a matter of politicians' behaviour, which has left many voters, especially on the right, feeling rejected and betrayed. And it is above all a matter of economic mismanagement. The danger is that this may be aggravated if the socialist government no longer faces serious competition from the right, while remaining under pressure to placate its own supporters and allies, including the communists.

It is too late now for Mr Jospin to retreat on his pledge to introduce a compulsory 35-hour week for private firms employing more than 20 people, which will probably be put into law this week. But much remains to play for. This law provides only a framework. Crucial details, such as the effect on rates of pay, and whether the 35 hours can be averaged over a year, will not be settled until 2000.

The new system will not be fully in force until 2002. At least yesterday Mr Jospin resumed a formal dialogue with the employers. He needs to listen carefully to their views, since it is only they, in the last resort, who can create new jobs.

East meets west

Were it not for the Asian economic crisis, European and Asian heads of state might be wondering whether it was worth holding their biennial summit in London at all this weekend. The first such occasion in Bangkok two years ago broke the ice covering a neglected inter-regional *relationship but did little to set* direction for the future.

Now, the crisis is forcing both sides to examine more closely what they expect from each other, and the summit will set a tone for some years to come. Europe, in particular, must decide whether it wishes to be engaged in Asia amid accusations that it has contributed little to a resolution of the region's financial and economic problems.

Admittedly, the incentives for doing more are scant when the European public is indifferent and the EU is much more preoccupied with monetary union. Asians are also vague about exactly what they want from Europe. Some of their arguments for European involvement in the crisis are weak. The fact that European banks are heavily exposed to Asia does not in itself mean European governments should bail its economies out.

Still, the EU must decide whether it wants to play a global role in the longer term. If it does, it *needs to show now* that it is prepared to engage with Asia and fight to dispel the impression that its response to the crisis has been curmudgeonly.

This is not necessarily a question of putting up a lot more cash. Nor would it be right for the EU to bypass the International Monetary Fund in dealing with crises. But the EU could show that it was willing to use its position in the IMF to engage actively in the debate on systemic reforms that are needed as a result of the crisis. Thus far the ideas have tended to come from the US which has also made all the running in orchestrating rescue packages.

Above all, Europe, with its relatively strong economy, should make it clear that its markets are open to Asian products. Nobody has any lasting interest in a solution that leaves the US as importer of last resort.

By convincingly eschewing protectionism – even though trade is likely to run in Asia's *favour while the region adjusts* – Europe could both foster closer relations with Asia and promote the multilateral system. It would be right for Asia to promise continued liberalisation in return.

The difficulty for European leaders will be to make such a commitment credible. They *will* not receive public credit at home for doing so, but they will be backing away from a global role for Europe if they do not.

Romania adrift

Last night's resignation of Victor Ciorbea, the Romanian prime minister, is supposed to end the months of political wrangling which had brought economic reform to a virtual standstill. The stalemate in the coalition has been a far cry from the hopes for reform when it was elected 16 months ago. The fear now is that the horse-trading required to form a new government will simply prolong the paralysis.

Mr Ciorbea claimed to have drawn up the most detailed programme yet seen in his country for privatisation, restructuring industry and the utilities, and promoting small and medium-sized business. Those goals are urgently required to revive the economy. But they have been eclipsed by political rivalries.

The privatisation programme is far behind schedule, depriving the state budget of essential revenues. That means the budget targets are no longer realistic, including curbing the deficit and bringing inflation down from last year's 150 per cent to around 45 per cent. As a result, the IMF has delayed disbursement of the next tranche of the country's $410m standby loan.

So far, the government has failed to reform, sell or close down most of its big loss-making state industries, or force them to pay their bills to the other state utilities. Heavy subsidies of both state banks and factories are a big factor in the chronic budget deficit.

The reasons for Romania's malaise lie in a combination of political weakness in government, the incompetence of the unreformed, communist-era bureaucracy, and the entrenched power of interest groups such as state managers, trade unions, and businessmen exploiting their privileged connections. None of them wishes to see serious foreign competition in the economy.

The 1996 elections saw the former communists swept from power, but their democratic successors have failed to get the promised reform process moving. The initial enthusiasm of foreign investors has evaporated.

President Emil Constantinescu has promised to appoint a new prime minister by Thursday. Whoever emerges will have a daunting task. There is no indication that the war of personalities has been solved by Mr Ciorbea's resignation.

When Romania was left out of the first wave of enlargement of Nato and the European Union last year, there was a great sense of national disappointment. The events of recent months, however, only serve to underline the fundamental weaknesses in the political process. Above all, the country's new leaders must learn to put the national interest ahead of their short-term personal gain.

Is this great, or what?

Gerard Baker celebrates seven years of remarkable economic success in the US and asks whether things can go on like this

Goldilocks is seven years old tomorrow. The "not-too-hot, not-too-cold" fairytale US expansion began in the quarter starting April 1991 and has gone on to become the third-longest upswing this century. With no sign of a recession in sight, it will soon overtake the Reagan boom to move into second place. Only the 1960s were better."Is this a great time, or what?" shrieks one advertising slogan seen on a thousand billboards.

For ordinary Americans there *is no doubt about it: unemployment* is at a 24-year low, inflation is at a 30-year low and falling, and the stock market has generated more wealth in the past three years than in the previous three decades.

For policymakers, though, this may not be such a great time. Indeed, it may be an unusually tricky one. To ensure the US does not overheat, they are having to read the economic signals correctly at a time of confusion and difficulty in the world economy. And to understand why this matters so much to the US, it is first necessary to look at what the role of policy has been in the *Goldilocks economy and hence* why it could make such a difference if it went wrong.

For the past couple of years, economists have differed strongly over whether the economy is enjoying the fruits of fundamental changes in productivity – owing to technological innovation, globalisation of markets, more labour flexibility – or just plain luck. Surprisingly, though, there is little dispute that policy management has been critical to the success.

The monetary, fiscal and other policies adopted by the various parts of the federal government in the past decade have been distinguished. *It may well have been* one of the best all-round policy performances in the post-war period, according to most observers.

"The Fed, successive administrations and congresses have helped create the right conditions for the economy," says Charles *Schultze, chief economic adviser* to Jimmy Carter, the former president. Murray Weidenbaum, who did the same job for President Ronald Reagan, says that "American businesses get the real credit for this performance, but the right policies have certainly been necessary preconditions for growth." It is ironic that, at a time when polls suggest Americans' trust in government is at a low ebb, they may never have been better served by their officials.

By now, the role played by the Federal Reserve – in particular by Alan Greenspan, the central bank chairman – is a familiar one. It is given especially high marks by economists for a critical period in which it avoided economic overheating in 1994-95. In spite of only limited evidence that inflation was accelerating, and against strong criticism, the Fed raised interest rates sharply, enabling low-inflation expansion to continue. In the past year, the central bank has also been widely praised for pursuing the opposite path – refraining from raising interest rates, as it might have been expected to do, in the *face of accelerating growth.*

Praise for politically independent central bankers is one thing. The efforts of politicians rarely receive many plaudits. But there is a growing recognition that, in a number of critical areas in the past few years, politicians have done basically the right thing. Most striking has been progress towards eliminating the vast US budget deficit, seen by many economists just a decade ago as perhaps the greatest threat to global financial stability.

Since 1986, the federal government's deficit has declined from 5 per cent of gross domestic product to almost zero last year. In *the current fiscal year,* though the official projections are for a small deficit, the probability is that the government's finances *will move into surplus.*

This change has been critical. It has raised national savings and facilitated a fall in short- and long-term interest rates. In the *process it has helped raise* private sector investment and made it easier to address long-term budget problems.

Some of the decline in the government's borrowing needs has, of course, been the result of the strong growth, which has bolstered tax revenues and limited spending. But even the most cynical economists acknowledge that, in a series of critical and politically difficult budget deals, the administration and the Congress have played a vital role in *reining in the deficit.* As a result, the structural deficit – adjusted for the effects of growth on spending and taxes – has declined from 4 per cent of GDP in the late 1980s, to around 1 per cent this year.

Progress has been made at considerable political cost. "The remarkable thing is that the political price that was paid for these fiscal achievements was every bit as great as politicians feared," says Robert Reischauer, a former director of the politically independent Congressional Budget Office. And in other areas too, the administration and the Congress have taken difficult decisions that have benefitted the economy while producing questionable political dividends.

'The government has done the things it ought to be doing and done them well'

Trade-opening policies – such as the North American Free Trade Agreement – were secured against domestic hostility. A commitment to deregulation of important sectors of the economy such as telecommunications and *financial services has also been* economically beneficial.

Not all areas of policy management have been a success. Some critics argue that the opportunity has so far been missed to address the longer-term problems that confront the economy, such as the growing cost of spending on the elderly, widening inequalities in income and wealth, and the poor quality of education and health services.

But the consensus among economists remains: in the past 10 years, it says, the government's role has become increasingly limited – and this has had a positive effect. "On the whole, government has done the things it ought to be doing, and done them well. It's avoided policies that would have messed things up – from the left or the right," says Mr Schultze.

Now the central question for financial markets and American people alike is: can that record continue?

The sanguine argue that it will go on because it is the result not of individual policymakers but rather of a fundamentally changed political economy. Some economists argue that the main reason for the success has been the development of ever-deeper capital markets. The scope for policymakers to make mistakes is much more limited than in the past, they argue, because financial markets, especially bond markets, punish errors and force policy changes.

But even bond market vigilantes acknowledge that the power of the markets has its limits. "It's overdone to suggest that strong capital markets prevent mistakes from being made," says William Dudley, chief US economist at Goldman Sachs, the New York investment bank. "They make it more difficult, but do not rule out the possibility."

Which brings us to the current position. At the moment, the outlook for policy in the next year or two is highly uncertain. *On the* monetary front, Mr Greenspan has acknowledged that policy judgments will be particularly tricky over the next 24 months: with the prospects of the domestic economy somewhat clouded by the Asian crisis, the scope for a monetary policy error – in either direction – seems strong.

Last year, US demand grew by 3.8 per cent, well above what most economists regard as its sustainable long-term trend rate of about 2.3 per cent.

For the past six months the Fed has based its policy on an *assumption that the Asian crisis* will slow the economy towards its sustainable rate. But as yet, there is little evidence that the long-awaited slowdown has begun. If the Fed's judgment is wrong, it suggests the central bank should have raised interest rates to slow the economy before now. Without an Asian-induced deceleration soon, the Fed's failure to tighten policy could mean that inflation, for so long quiescent, may be about to accelerate as wage costs rise in increasingly tight labour markets. That would constitute a serious policy error by the saintly Mr Greenspan.

The fiscal policy outlook is also much less clear. President Clinton and the Republicans have vowed to maintain prudence by setting aside surpluses over the next few years to reduce debt and shore up the budget against the long-term pressures from an ageing population. But many analysts believe the passing of the long era of deficits may persuade Congress (keen for tax cuts) and the administration (eager for more spending) to let up on the fiscal brake.

"Right now there's still a lot of scar tissue from the last two decades," says Mr Reischauer "That will prevent us from doing some crazy things like big tax cuts or wild expansion of entitlements. But will it mean a new era of prudence? I doubt it."

And in other areas too, the prospects for continued virtue seem hazy. Congress has already sounded a much more aggres*sively sceptical note on trade* by failing to adopt legislation last year that would have given the president fast-track authority to negotiate trade agreements.

The danger is that the long era of prudence may largely have been driven by the short-term memory of the costs of imprudence. As the memory of those failures fades, the chances of policy gaffes will grow.

OBSERVER

Speaking in tongues

French may be the traditional working language of *le club Européen*, but yesterday most of the latest membership hopefuls chose to make their bids in English.

At the ceremonial launch of negotiations to enlarge the European Union, only two of the 11 foreign *ministers* from the candidate countries – Bronislaw Geremek of Poland and Jaroslav Sedivy of the Czech Republic – spoke in French. *The others* used English, apart from Slovakia's Jozef Kalman, who was alone in opting for Slovakian.

Nobody expected the Greek *Cypriots to ignore their historical* ties with Britain and speak *en français*. Nor were eyebrows raised when the speeches from Estonia and Latvia *were made in rasping American* accents: the Baltics are adept at finding talented imports from the US to fill holes in their administrations.

The real surprise was when Andrei Gabriel Plesu gave a wistful speech about Romania's crusade to rejoin the European family in an impeccable *English accent: Romanians are* supposed to be francophone and francophile. Plesu rubbed home the point by exchanging pleasantries *with British foreign secretary Robin* Cook: he compared current Romanian sentiment about Europe with the British colonialists in India who felt more British than the British.

Even Hubert Vedrine, the French foreign minister – who must have been mildly alarmed by this latest advance of English in Brussels – managed a smile.

Christian charity

Peter Hintze, general secretary of Helmut Kohl's Christian Democratic Union, must have one of the most thankless jobs in German politics, suffering the persistent demands and occasional ill humour of his boss and hostility from some party members and the Bonn press corps.

The former protestant priest normally handles it all with Christian good humour. Yesterday he gamely denied weekend reports that he was facing demotion – or even the chop – for running an allegedly lacklustre general election campaign that has *left the CDU trailing badly in the* opinion polls behind the revitalised Social Democrats and their telegenic candidate Gerhard Schröder.

Only at one point did Hintze lose his composure – he was asked about criticism of his campaign by Basilius Streithofen, a Dominican friar *described in press reports as a* seasoned adviser of Kohl. He was no such thing, Hintze snorted: the friar had not seen Kohl for years.

Some malicious souls interpreted Hintze's loss of ecumenical cool about the meddlesome mendicant as a sign of insecurity. They should *think again – Kohl himself has ridden* to the rescue.

Looking fit and aggressive in an interview with the ZDF television channel last night, the chancellor declared that criticism of Hintze from within the CDU was "stupid" – he would "of course" continue as election campaign manager. The Christian Democrats are, after all, a broad church.

Old faces

The old team is back together running Vanuatu, the South Pacific tax haven where governments change at a bewildering rate.

Parliament yesterday appointed Donald Kalpokas of the Vanuaaku *Pati as prime minister with the* National United party's Father Walter Lini as deputy. Lini, an Anglican priest, was head of the VP and *Kalpokas was his deputy when the* 83-island group became independent from joint Franco-British rule in 1980.

The pair fell out and Kalpokas *ousted* Lini in 1991. *Political life on* the islands has been complicated since then: in 1996 Kalpokas moved from leader of the opposition to *deputy to prime minister Serge* Vohor, who ditched him a few months later. Meantime, Kalpokas and Lini had got together again, *sealing the pact with a kava-drinking* ceremony.

At least one job has been secured by the new coalition. Ombudsman *Marie-Noelle Ferrieux has spent the* last few years issuing reports accusing politicians of corruption, and an irate Vohor had wanted to get *rid of her.*

Home front

A prince must have a palace, and Prince Norodom Ranariddh – Cambodia's ousted co-prime minister who returned to his homeland yesterday after another nine-month spell in exile – is no exception.

During last year's coup against him, the prince's sprawling Phnom Penh compound was ransacked and the property eventually confiscated. That shouldn't be too serious a problem – plenty of ritzy housing has been built *in the Cambodian capital* in recent years for international officials with big housing allowances.

Yesterday, the prince went straight *from the airport to a hotel, the* luxurious Le Royal, where he declared: "It is not very good for me as *prime minister*, as president of *one of the major parties, to have to* stay in a hotel in my own city. I have to find a home – to rent of course. I don't have anything."

Nothing, that is, apart from a home in France, where he is a professor of politics – and the compound in Bangkok to which he plans to return *by the end of the week.*

Daylight robbery

It wasn't just the car industry that arrived in Japan after the second world war: the American occupiers brought daylight saving time, which – *unlike motor making* – the Japanese ditched as soon as the Yanks left town. Now Japan's Environment Agency thinks moving clocks an hour *ahead in summer might save fuel.*

There's just one potential hitch: opponents say hard-driving salarymen would be ashamed to leave their desks while it was still light outside. Pushing the clocks forward might *just push a few workaholics over the edge.*

The Financial Times

100 years ago

More Telephone Trouble
A Parliamentary report has just been published relating to the telephone exchanges opened in the United Kingdom by the Post Office, and affording some measure of the evidence of their usefulness. The main conclusion to be derived from this document is that, for some reason or other, the endeavours of the Post Office to cultivate facilities for rapid oral communication have not met with any striking degree of success, and have fallen far short of the *achievements of foreign countries.* The number of subscribers on 31st December, 1896, on exchanges then open was 1,151, and in the 12 months the total was swollen only to the extent of four new patrons.

50 years ago

Rationing Reduced in Poland
Warsaw, March 30. The Polish Government to-day announced that the rationing of sugar, potatoes, some textiles and Kasha, *a cereal, will be abolished* on April 1. It hopes to end all rationing – including meat, milk and butter – this year. Government employees and workers who get food and clothing as part of their salaries under the rationing system are to have compensatory wage increases.

FINANCIAL TIMES
TUESDAY MARCH 31 1998

THE LEX COLUMN

Bavarian bulldog

True Rolls-Royce car lovers should not mourn its passing into German hands. The motley collection of potential British buyers could not have guaranteed Rolls-Royce's future as well as BMW can. And since BMW already provides Rolls-Royce with beefy engines, gearboxes and much other technology, the product's Britishness is as much to do with marketing as reality.

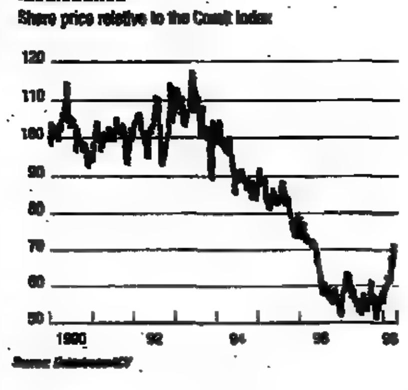
Under the Bavarian carmaker's wing, profitability should improve dramatically, with Bernd Pischetsrieder, BMW chairman, expecting costs to fall by 30 per cent over a decade. With the lifespan of new models likely to be significantly shorter than in the past, larger volumes will be necessary to justify research and development costs and marketing expenditure. Bold plans to treble sales by pushing new models through BMW's larger distribution and service network highlight how under-exploited the Rolls-Royce brand has been under Vickers' stewardship.

BMW's engine supply deal and links with the Rolls-Royce aerospace group meant it was always the frontrunner, so Vickers did well to draw other bids. But the absence from the fray of Daimler-Benz and the big US players left the auction a flat affair. Semi-serious interest from Volkswagen, anxious to justify an unnecessary rights issue, pushed BMW's bid up a touch. But the price is barely more than last year's sales. If the new Silver Seraph sells well, BMW shareholders will be celebrating a bargain.

Mediobanca

Mediobanca, the secretive Milanese merchant bank, has long been the spider in a web of cross-shareholdings controlling Italy's elite companies. So its announcement that the cross-holdings are no longer strategic and that it wants a more open image seems to presage a revolution both at Mediobanca itself and in Italian capitalism.

But, as often with Mediobanca, appearances are deceptive. For a start, there are no plans to unravel its stake in Generali, the insurer which accounts for the bulk of its L11,000bn in investments. Quite the reverse; Mediobanca is actually tapping shareholders for L2,100bn in capital to maintain its controlling position. Nor is there any timetable for selling the other



investments. If Mediobanca had really made a conversion on the road to Damascus, it would be liquidating its portfolio rapidly and handing the cash back to shareholders.

The other strand of Mediobanca's new strategy – focusing on asset management and investment banking for smaller enterprises – is not quite as great as it sounds either. In discovering fund management in 1998, the Milanese bank is very much a Johnny-come-lately. Equally, smaller companies, traditionally treated with disdain by Mediobanca, may now view its sales pitch as an attempt to ensnare them in its web. Far from driving Italian capitalism, Mediobanca is having to respond to the revolution occurring around it.

Coke

"We're just getting started," reads the pitch at the front of Coca-Cola's latest annual report. It's a hard line to sell. Coca-Cola, with a market value of nearly $190bn, is already one of the world's largest companies. This year, one billion servings of its products will be consumed every day. Can it still be a growth stock?

A profits warning last year – blamed on tough year-on-year comparisons and a stronger dollar – took some fizz out of the stock. Some feared the company had lost its habit of producing consistent earnings per share growth of 20 per cent every quarter.

But yesterday's volume figures should help refocus attention on underlying growth. While first quarter earnings, due in two weeks, may again be hit by the dollar's strength, volume growth of 18-19 per cent in Latin America and 17-18 per cent in the Middle and Far East shows that aggressive emerging markets expansion is a convincing engine for long-term growth.

Coca-Cola's goal of 15-20 per cent quarterly earnings per share growth still looks credible given underlying volume growth of as much as 10 per cent in the first quarter and the group's financial and marketing strength. The company's unswerving advance in the face of a few little local difficulties – the 1994 Mexican crisis or Asia's current economic problems – has reaffirmed Coca-Cola's membership of the group of stocks Warren Buffett dubbed "the inevitables".

South Korea

Korea's government has made a cracking start to restructuring the economy. But what of the business community? Reform of the *chaebol* which dominate the economy is crucial if Korea is to swap state capitalism for shareholder value. Here developments have been more mixed. Growing shareholder activism has been welcome news. Recently, for example, SK Telecom has bowed to pressure and put more foreigners on its board, with a greater say in its affairs. Samsung Electronics may have faced down shareholder activists, but the very fact it was challenged is significant.

Corporates themselves have been less well behaved. Several have issued convertible shares precisely in order to dilute foreign ownership. The *chaebol* have also shown a reluctance to embrace wholehearted restructuring. A belief still lingers that a recovery in the currency and falling interest rates will allow them to get away with shedding only a few peripheral assets. It will probably take a spate of bankruptcies and more pressure from the banks to change this attitude. With the economy set to shrink this year, and non-performing loans already rising sharply, the wait may not be too long.

Equity investors should certainly hope so. The 60 per cent rise in share prices this year has been driven largely by government promises of reform. If it is to be sustained, companies will soon have to show they too understand the script.

Yeltsin claims he will not run for third term in 2000

Russian president stops short of backing Chernomyrdin candidacy

By Chrystia Freeland in Moscow

Russia's succession struggle intensified yesterday when President Boris Yeltsin said he would not run for a third term, but stopped short of blessing Victor Chernomyrdin, the former prime minister, as his replacement.

At the same time, Mr Yeltsin underscored his dominance of Russian politics by insisting that last week's abrupt dismissal of the cabinet and his prime minister had been his idea alone and not Mr Chernomyrdin's initiative, as the humbled ex-premier had hinted over the weekend.

Mr Yeltsin's surprise move has set off a struggle over the composition of the new cabinet, and for the Kremlin itself, in what the communist opposition dubbed Russia's most serious political crisis since the Chechen war.

One of the chief casualties of Mr Yeltsin's unexpected decision was Mr Chernomyrdin, who launched an uphill effort to revive his political career over the weekend by declaring himself a candidate in presidential elections scheduled for 2000.

But Mr Yeltsin yesterday made clear that the man who had served him as prime minister for five years could not count on the Kremlin's support.

The president said Mr Chernomyrdin's open presidential ambitions "do not fall outside the general sphere of our policy", but refused to name him as his successor.

Mr Yeltsin also added to Mr Chernomyrdin's humiliation by insisting that his sacking of the prime minister had been a unilateral decision.

"When he [Chernomyrdin] said he had taken the decision, that is not quite right," Mr Yeltsin said. "It is I who took the decision to sack the government."

Mr Yeltsin's assertion of his authority was at odds with his modest insistence that he would not personally "take part in" the 2000 presidential race and that it was inappropriate for him to name a favourite because "kings have successors, but we don't".

Despite his denials, many observers believe the ageing Kremlin chief is considering seeking a third term. Mr Yeltsin, who last week reneged on a public pledge to keep Anatoly Chubais in government until 2000, is adept at political U-turns and fond of the power of Russia's strong-arm presidency.

Mr Yeltsin displayed some of that presidential muscle yesterday, with a confident assertion that the duma, the lower house of the Russian parliament, would support his nomination of Sergei Kiriyenko, a 35-year-old political novice, as the new prime minister when it votes on his candidacy on Friday.

Russian reformers, some of whom have claimed the cabinet shuffle was at their instigation, received a setback when Sergei Stepashin, justice minister in the outgoing government and one of the leading proponents of the war in Chechnya, was named acting interior minister.

He replaces Anatoly Kulikov, another hawk.

Indonesia pledges to step up state sales to boost revenues

Plan includes selling extra shares in partly privatised companies

By Sander Thoenes in Jakarta

Indonesia yesterday pledged to privatise seven state enterprises and sell additional shares in five partially privatised businesses in the next year to boost government revenues and implement reforms agreed with the International Monetary Fund.

The pledge represents a tougher deadline than set with the IMF in January, when the two sides agreed that 12 enterprises would be merely prepared for sale. The earlier agreement had called for 12 new privatisations, however, with additional sales of shares in privatised companies.

Many economists doubt Indonesia can meet either target, given the lack of preparation and regulations, let alone obtain significant revenue in the current recession. The government is expected to miss an April deadline, set by the January agreement, to establish a *framework* for transparent privatisation tenders.

A list of enterprises to be privatised is not due to be made public until June but Fuad Bawazier, finance minister, said the sales would include shares in five of the six companies already partly privatised: two telecommunications companies, two mines, a cement mill and bank. In some cases, investors would be able to obtain majority stakes for the first time.

If carried out, the ambitious privatisation drive would mark a sharp change in practice. Public offerings of state enterprises have been rare and often scandal-ridden. Indonesia last year listed shares in Aneka Tambang, a mining company, but the collapse of the stock market last autumn depressed sale returns.

Foreign investors have bought many *shares offered in previous* privatisations, with Telekomunikasi Indonesia, the telephone monopoly, the most actively traded stock on the Jakarta Stock Exchange. Mr Bawazier said foreigners had already expressed interest in the forthcoming offerings.

The government has established a ministry for managing 164 state enterprises, which used to be controlled by various ministries. Tanri Abeng, a respected business executive who heads the new ministry, said last week that 70 per cent of the state companies were financially unsound. They included small hotels and plantations.

It is unclear whether Mr Tanri will also control Pertamina, the oil and gas monopoly, PGN, the gas distribution company, and PLN, the electricity utility, under the Ministry for Energy and Mining. Some diplomats expect Pertamina to privatise two *subsidiaries but say it could take* more than a year to prepare.

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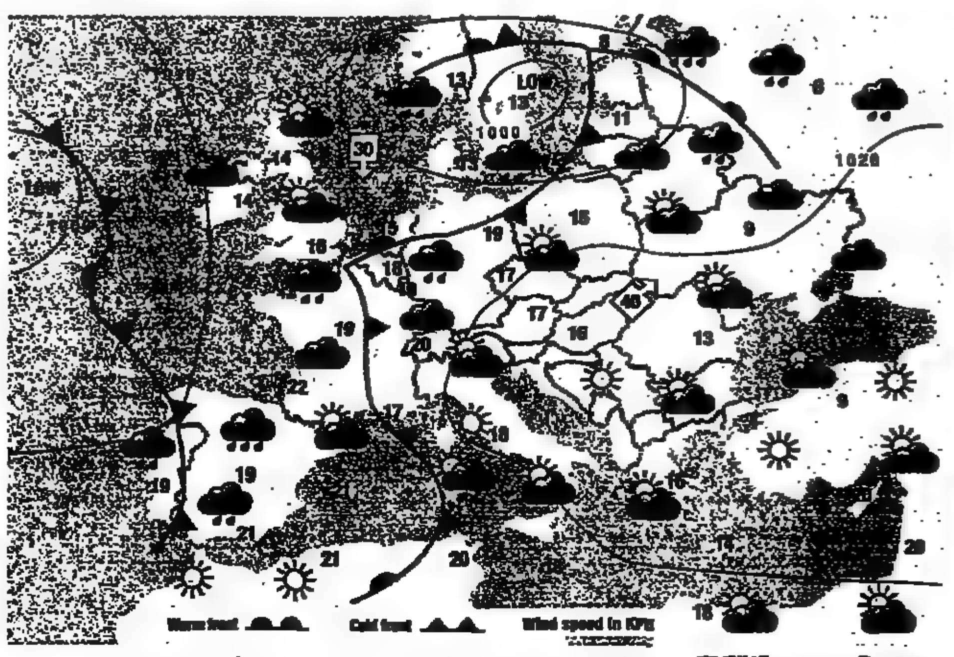
FT WEATHER GUIDE

Europe today

Much of southern Scandinavia will have outbreaks of rain but northern areas will be sunny, although chilly. Central and eastern Europe will be mild and sunny but western Russia will be cloudy with rain spreading from the west. France will be cloudy with patchy rain, mainly in the north. Spain and Portugal will have another unsettled day with rain or thundery showers. Much of the Mediterranean will be dry but thundery showers are likely over the Iberian Peninsula, especially Portugal and western Spain.

Five-day forecast

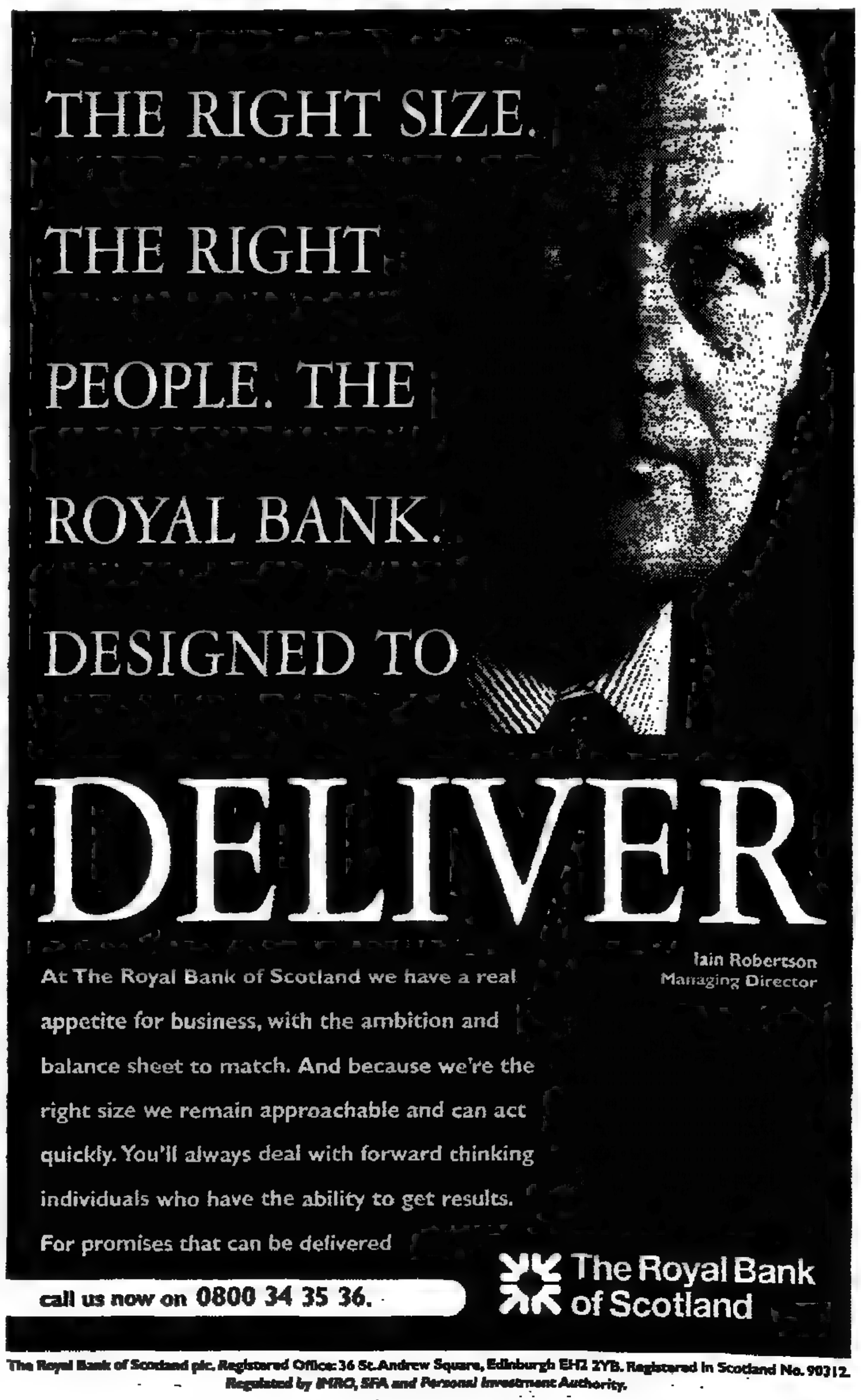
Much of Scandinavia will become settled but will turn colder. Western, central and eastern Europe will become increasingly unsettled with rain. Winds will strengthen in the west. The eastern Mediterranean will stay fine with sunshine but western areas will become unsettled.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	29
Accra	Fair	34
Algiers	Fair	21
Amsterdam	Cloudy	15
Athens	Fair	16
Atlanta	Fair	26
B. Aires	Fair	25
B.ham	Fair	15
Bangkok	Fair	36
Barcelona	Fair	19
Beijing	Cloudy	14
Belfast	Fair	14
Belgrade	Sun	16
Berlin	Fair	19
Bermuda	Fair	24
Bogota	Cloudy	20
Bombay	Sun	[illegible]
Brussels	Drzzl	16
Budapest	Fair	16
C.hagen	Fair	13
Cairo	Fair	21
Caracas	Fair	30
Cardiff	Fair	14
Casablanca	Fair	21
Chicago	Rain	13
Cologne	Fair	21
Dakar	Sun	26
Dallas	Sun	19
Delhi	Sun	34
Dubai	Fair	30
Dublin	Rain	14
Dubrovnik	Sun	17
Edinburgh	Fair	14
Faro	Shower	20
Frankfurt	Fair	22
Geneva	Fair	20
Gibraltar	Shower	21
Glasgow	Fair	14
Hamburg	Fair	16
Helsinki	Rain	8
Hong Kong	Fair	23
Honolulu	Fair	28
Istanbul	Fair	10
Jakarta	Cloudy	33
Jersey	Rain	13
Johannesburg	Fair	28
Karachi	Fair	33
Kuwait	Sun	32
L. Angeles	Rain	17
Las Palmas	Fair	24
Lima	Fair	30
Lisbon	Shower	19
London	Cloudy	16
Lux.bourg	Fair	19
Lyon	Fair	20
Madeira	Fair	21
Madrid	Shower	19
Majorca	Fair	21
Malta	Fair	19
Manchester	Fair	15
Manila	Cloudy	32
Melbourne	Cloudy	17
Mexico City	Sun	29
Miami	Fair	30
Milan	Fair	22
Montreal	Shower	10
Moscow	Rain	6
Munich	Fair	19
Nairobi	Fair	27
Naples	Fair	18
Nassau	Fair	29
New York	Fair	22
Nice	Fair	17
Nicosia	Fair	20
Oslo	Rain	13
Paris	Rain	19
Perth	Sun	33
Prague	Sun	17
Rangoon	Fair	36
Reykjavik	Fair	8
Rio	Fair	31
Rome	Fair	18
S. Frsco	Shower	15
Seoul	Cloudy	17
Singapore	Thunder	34
Stockholm	Drzzl	13
Strasbourg	Sun	22
Sydney	Cloudy	25
Tangier	Fair	21
Tel Aviv	Fair	17
Tokyo	Cloudy	17
Toronto	Fair	13
Vancouver	Rain	11
Venice	Sun	19
Vienna	Fair	17
Warsaw	Fair	15
Washington	Fair	27
Wellington	Fair	18
Winnipeg	Shower	6
Zurich	Sun	22



Singapore

The financial turmoil in south-east Asia seems certain to affect economic growth, writes Peter Montagnon

Quest for a way through the storm

The past few months have seen a long-dreaded nightmare come true for older Singaporeans. A small island state with a predominantly Chinese population, founded amid regional turmoil in the 1960s, Singapore has always feared the consequences of economic and social instability in Indonesia, its large Moslem neighbour.

Developments in that country, whose nearest point is only half an hour away by ship, have become almost a daily obsession for Singapore's leaders as Jakarta's currency collapses and its economy grinds to a halt prompting food shortages and riots.

In the short run, Indonesia's plight seems almost certain to aggravate a sharp slowdown in Singapore's economic growth this year. In the slightly longer run officials fear it could destabilise the region, threatening the financial confidence, shipping routes and air links on which Singapore still depends heavily for its prosperity.

While Singapore, with its large balance of payments surplus and its high foreign exchange reserves is well placed to ride out the region's economic storm, it can do little more than wring its hands at developments across the water. Managing a way through the crisis without losing sight of the social and economic changes needed to secure long-term competitiveness has become the main preoccupation of the city state's government in 1998.

How it succeeds will have broader implications going beyond its 3m inhabitants. Not only is Singapore easily the richest country in the region; for all its emphasis on so-called Asian values it is also one of the most westernised.

With its active financial centre, its world class container port, its role as a regional headquarters for multinational companies and its close strategic ties with the US, it is an important link between south-east Asia and the rest of the world. When President Clinton first decided to intervene personally in Indonesia's crisis in January, Goh Chok Tong, Singapore's prime minister, was one of the leaders he called.

But, for Singapore's leaders the region's troubles accentuate a dilemma they have long confronted. While a sense of crisis appears to call for a conservative approach to politics and government, the need to keep and attract talent and develop the flair needed to take the country forward in the global economy underlines the requirement for some relaxation of the social and political restraints that Singapore has traditionally imposed on individual citizens.

Thus far the emphasis has been on consistency and continuity. One of the immediate external consequences of the trouble in Indonesia has been a determined rapprochement between Singapore and its northern neighbour, Malaysia. Singapore is also playing an important role in seeking outside help for its neighbours. Mr Goh has proposed a $20bn multilateral credit facility to enable Indonesia to buy essential supplies.

Nor has Singapore allowed worries about the regional economy to deflect it from plans to liberalise its financial markets and make them more competitive in the global system. Last month's budget, meanwhile, showed no signs of panic, whatever the underlying concern about the Indonesian crisis.

Though economic growth is officially forecast to fall to between 2.5 per cent and 4.5 per cent this year from 7.8 per cent last year, drastic changes were not appropriate, said Richard Hu, finance minister, in his budget speech. While permitting a 25 per cent increase in development spending, he eschewed pressure for corporate tax cuts and personal tax concessions.

Singapore still plans to run a budget surplus this year, though, at 1.7 per cent of gross domestic product, it will be one of the smallest in recent years. Mr Hu also noted that Singapore has plenty of resources to mobilise in case the situation deteriorates.

Whether he will need them is a moot point. Private sector forecasts for the economy range from around 5 per cent to zero growth, depending on how the situation in Indonesia develops. Indonesia's economic importance is large but hard to calculate, because it encompasses more than just bilateral trade where the figures are so sensitive that Singapore does not publish them.

Indonesians own a lot of property in Singapore, often financed by Singaporean banks. Until recently they were big spenders as tourists and their affluent sick filled Singapore's now languishing private hospitals. Singapore companies invested in Indonesia, and its banks sought out customers there.

But if Singapore's planners admit they are working in the dark about the immediate prospects, they are pretty clear about what they want for the long term. Manufacturing is to remain a pillar of the economy, but the services sector will also grow as knowledge-based activities become more important.

"Supported by high-value manufacturing and hub services, Singapore can become a knowledge-based economy where the ability to acquire, process and apply knowledge and information will be a key competitive advantage," Lee Yock Suan, trade and industry minister, told business people recently.

Singapore companies must look outward and develop as Asian multinationals, he said, while the country also needed to develop its indigenous science and technology skills. But an important shift in Singapore's thinking is that it is moving away from the dirigisme on which it built its prosperity.

The government would help facilitate globalisation of Singapore's companies, said Mr Lee, but it would be up to them to evaluate the risks and bear responsibility for them. "This is the end of the nanny-state," said one western stockbroker.

Nowhere is this mood clearer than in financial services where the government has embarked on a significant process of deregulation (see story on page 2). The aim is to build the capital market which has lagged other activities such as foreign exchange trading. Singapore wants to become a leading regional centre for fund management, but it has also now recognised that a dynamic and innovative centre requires less heavy-handed regulation than has been the case in the past. Unfavourable comparisons have been made between Singapore and the much greater "buzz" that resounds through Hong Kong.

Only with a lighter regulatory touch will Singapore institutions be able to develop and market new financial products, and only then will it be able to attract and keep the international and local talent needed to keep the country competitive in the global financial system.

But it would be rash to assume that the change will be dramatic. In practice, Singapore is unlikely to give up its culture of control that easily. Lee Hsien Loong, deputy prime minister and chairman of the Monetary Authority, says the easier approach to regulation will be an iterative process, with the authorities assessing the consequences at each stage along the way.

Similarly, if Singapore's astute planners have rightly recognised that knowledge-based industries are the key to the future, they also have to make some delicate decisions about how much free flow of information to allow.

Controls on the use of the internet were relaxed last year – though the government prefers to say it clarified the regulations – and last month's budget made special tax concessions on the development of internet-based commerce. According to Harish Pillay of the round-table ginger group, use of the internet has also opened up political debate in an unprecedented degree.

Singapore thus seems embarked on a more liberal course. The arts have been actively promoted by the government, and censorship has been eased to a certain degree. This month, the Singapore Repertory Theatre staged performances of The Kiss of the Spiderwoman, a play whose political and sexual content would have rendered it banned only a few years ago.

But this sense of liberalism does not extend far into the political arena. Senior government officials show no regret at all over last year's celebrated libel trial of opposition politician Joshua Jeyaretnam, where Mr Goh faced some humiliating cross-questioning by the British defence counsel George Carman QC.

And in a move which looks bizarre to any western observer, the government also recently banned the production of political videos in a way that limits further the public reach of Singapore's opposition parties.

Given Singapore's ambition to develop a knowledge-based economy and its desire for political continuity in an affluent society, striking the right balance between the demand for individual rights and the needs of the community may yet become the most difficult challenge of all.

Singapore is building a knowledge-based economy to keep ahead of competitors Picture: Jonathan Drake

In this survey

Production editor: Roy Terry Design: Philip Hunt

THE ECONOMY • by Sheila McNulty

Wary of their neighbours

The slowdown throughout Asia has sharply curtailed activity in key industries

Political stability, clean government and a clear regulatory environment usually make Singapore one of the easier south-east Asian countries for economists to evaluate.

But this year projections range from negative growth to more than 5 per cent and it is difficult to find two economists who agree on where a country they trust will fare well in the long term is headed over the next year.

The uncertainties confronting Singapore are overwhelming. The biggest surrounds neighbouring Indonesia and whether its already enormous economic crisis will intensify still further, dragging it into the depths of political and social chaos.

The dramatic slowdown in business throughout east Asia, but particularly south of the city state, has already sharply curtailed activity in key Singaporean industries that Indonesians once helped to propel – tourism, ports, health care, retail, property and banking.

There are also increasing worries that the crisis will eventually result in a destabilising influx of illegal Indonesian immigrants desperate for work.

On top of the looming questions about Indonesia are those about Singapore's northern neighbour and active trading partner Malaysia.

Although it has so far made its way through the regional financial problems in better shape than many east Asian nations, economists believe Malaysia is still struggling to come to terms with the crisis and has yet to make the tough decisions needed to restore stability.

Just how bad it will get in Malaysia – and what the fall-out will be for Singapore – remains to be seen.

While some are counting on Singapore's electronics industry to come through with robust growth as its goods are destined mainly for outside the region, Song Seng Wun, regional economist at GK Goh Research in Singapore, says indicators, such as new orders, have been volatile, making even that difficult to assess.

So it is with caution that the city state is projecting 2.5 to 4.5 per cent growth this year, far lower than the 7.8 per cent recorded last year and down from the 4 to 5 per cent it had earlier forecast.

Even Lee Hsien Loong, deputy prime minister and head of the Monetary Authority of Singapore, the *de facto* central bank, is unsure whether that target will be met.

"No one can tell," he says. "The forecast assumes there are no discontinuities and nothing new develops. Then we should make that comfortably.

"If something new develops, all bets are off. The risks are on the downside, but I wouldn't rule out exceeding it either."

Fortunately for Singapore, it was sucked into the financial turmoil with what Soc-Gen-Crosby Research notes in its latest Quarterly Economic Review is a strong underlying economic base.

At the end of last year it had the world's largest government fiscal surplus at 6.7 per cent of gross domestic product, a persistent current account surplus of more than 12 per cent of nominal GDP, foreign exchange reserves of nearly US$80bn, no net external debt and a well-capitalised banking system.

This gives the authorities the ability to address problems when and where necessary. They did just that in the budget released at the end of February, selectively focusing on weaknesses in property, where demand has fallen sharply, and the port, which is expected to be hit hard by a slowdown in regional trade.

At the centre of the budget was a 25 per cent increase in new development spending to S$11.7bn, much of it targeting long-term objectives such as education, defence and economic infrastructure.

Most important for many observers, however, was a series of measures to continue the objective of boosting the financial sector as part of a long-term effort to make Singapore an international financial centre.

This made it clear that, while the authorities are concerned about the financial crisis, they are determined not to let it to push the country off the path to increased competitiveness they set out on before it began. That is vital to widen the gap the neighbours had been closing.

Malaysia, for example, had started building itself up as an alternative to Singapore's financial hub before the turmoil unfolded. But, once it began, Kuala Lumpur chased away foreign investors by restricting trading in markets and blaming them for the crisis.

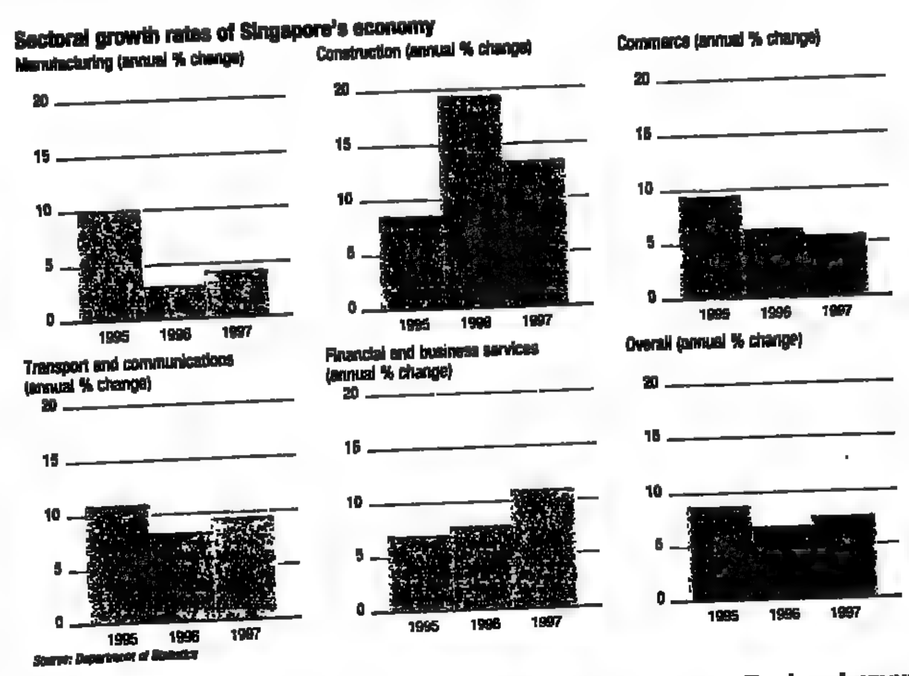
Meanwhile, Singapore has continued to open up and economists say this has assured many it is worth the premium paid to do business there.

The authorities also used the budget to signal that the public must not expect the government to shield it entirely from the crisis.

They need to take note that there have been a growing number of layoffs, a 17 per cent depreciation in the Singapore dollar against the US dollar over the calendar year just ended and a sharp rise in the three-month interbank rate to 7.2 per cent in 1997, from 3.1 per cent in 1996, as well as an increase in the prime rate to 6.5 per cent from 6 per cent.

The authorities, therefore, refused to deliver the widely expected cut in corporate tax and only provided individuals a 5 per cent income tax rebate, half of that given last year. In addition, they encouraged Singaporeans to save more by raising interest paid on savings accounts.

The authorities are aiming for a budget surplus of S$2.7bn this year, one of the smallest in recent years but enough to give them room to manoeuvre should worst-case scenarios develop in its neighbouring countries.



BANKING • by Peter Montagnon

Double-edged sword strikes

The profits of domestic banks have been hit by the ravages of the region's troubles

Rarely indeed does the head of a central bank announce a sharp fall in the profits of his country's leading banks before the banks themselves have a chance to get their own word in.

Yet that, to the amazement of the markets, was the way in which investors heard about the trend of results at Singapore banks this year.

Lee Hsien Loong, the deputy prime minister who has recently taken over at the helm of the Monetary Authority of Singapore, told parliament that bank profits for 1997 would fall 30 per cent as a result of a large jump in provisions on lending to troubled countries in Asia.

The disclosure was a forceful reminder of the way in which Singapore's domestic banks have been caught up in the region's troubles. But it was also an indication of the need for some tidying up in the banking industry if it is to compete successfully in Singapore's rapidly evolving financial marketplace.

Singapore's six commercial bank groups – including Development Bank of Singapore, Oversea-Chinese Banking Corporation, United Overseas Bank, Overseas Union Bank and Keppel, which is shortly to merge with the smallest institution, Tat Lee – are too many to service the relatively small domestic market.

That market must in any case be open to international competition under World Trade Organisation rules. So the government is encouraging the banks to consolidate, creating institutions large enough at least to spread their wings in the region.

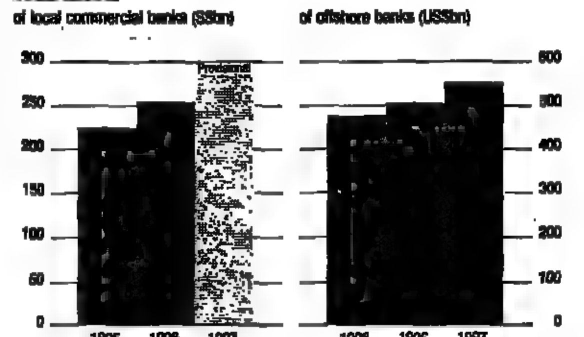
A main impulse, Mr Lee says, is the need to make best use of the limited amount of managerial talent available in a small country like Singapore.

But the ravages of the regional crisis may make this easier said than done. Mr Lee says the banks had total loan exposure of S$37.2bn to the troubled economies of Malaysia, Indonesia, Thailand, South Korea and the Philippines at the end of Deccember. Of that more than two-thirds was to Malaysia and S$5.4bn to Indonesia.

Around 5.7 per cent of the total was classified as non-performing at that statge, and Mr Lee said the banks would be making loss provisions of S$1.6bn to protect them against loss.

The announcement came as a double-edged sword. Coupled with a demand from the MAS for greater transparency in their accounts, it was clearly designed to mitigate exaggerated worries about the impact of their exposure in the region.

Total assets
of local commercial banks (S$bn) | of offshore banks (US$bn)



Source: Monetary Authority of Singapore

But the strong pre-emptive action still left many analysts believing that more provisions would be needed.

Some economists, such as Hugh Peyman of Dresdner Kleinowrt Benson, believe Singapore's already weak property market may be vulnerable to Indonesian sales even after the immediate crisis is over. That could create a continuing need for loss provisions at the banks.

When Development Bank announced a near sixfold increase in provisions to S$496m, Ng Kee Choe, its chief executive, said he was comfortable with the amount set aside but he acknowledged that provisions could increase if the situation in Indonesia deteriorated.

Thio Siew Hua, banking analyst at Indosuez W I Carr, believes that profits will again be depressed in 1998 as the banks continue to make aggressive provisions. Also, operating profits could come under some pressure this year as loan growth slows and margins fall as banks chase safer, low-return assets.

The tougher climate is unlikely to hasten the process of consolidation, she adds, not least because the government is concerned about the impact on employment of rationalisation in the banking sector at a time when the economy at home is weak.

Besides, the banks will have to be forced to merge. This is a government initiative on which the banks themselves are not keen.

Nor is there much financial pressure on them. With risk-weighted capital ratios averaging 17 to 18 per cent at the end of 1996, the banks entered the crisis with robust balance sheets. Having made its provisions, Development Bank immediately sought to stock up its capital again with the launch of a one-for-five rights issue.

If they are to compete internationally Singapore banks may need to increase their leverage to levels more comparable with other international standards. One possibility, according to some brokers, is that any large bank that emerges from the consolidation might use its surplus capital to buy a large international bank.

That would certainly put Singapore banking on the international map, but it presumes that the consolidation actually takes place and, while high capital ratios are a source of strength in the banking industry at this time of trouble, they also make it expensive for one local bank to acquire another.

INTERVIEW Lee Hsien Loong

Architect of wide-ranging financial market changes

Lee Hsien Loong, deputy prime minister and new chairman of the Monetary Authority of Singapore, has been making waves this year by promoting wide-ranging reform of the city state's financial markets.

A son of Lee Kuan Yew, Singapore's first prime minister, he is also often seen as a future holder of the office. In this interview he explains his views on financial reform and Singapore's future to Peter Montagnon and Sheila McNulty.

Question: Why are you promoting financial reform?

Answer: The formula which we have worked so far has been splendidly successful, but we think within limits. We have grown in a very orderly sort of way. And yet there are limitations, both because we have gone beyond the point where you can mastermind the whole operation and also because of the way the industry is moving worldwide.

There is tremendous ferment and even a merger mania. Technology is driving it – new products, new ways of doing business, new ways of supervising business, new risks. And we cannot just say this will pass us by. We want to be a regional centre plugged into the global network.

To do that we need a different approach. You cannot control everything but you must maintain a certain rigour, although at a detached distance. You must and be able to intervene and no one doubts your will or your capability. That means a change of gear for the supervisor, the government and the staff down the line who have to operate it.

Q: What will be the impact on the local banks?

A: The regional crisis will not delay the process of consolidation. It is not easy to do because several are family-controlled banks and each has its very well-established culture and well-established hierarchy. When you have a merger there are all sorts of consequences to be calculated.

Rationalisation is inevitable. It is a question of time. Even the biggest banks in the world feel the need to streamline their operations and develop economies of scale. In our case economies of scale are not just a matter of overheads, of general administration and computer systems but, most important, of top management.

I do not see us being able to have six top management teams, all tip-top, running six banks or seven, including the Post Office Savings Bank. So we have to rationalise, and I think they know that.

If the banks were somewhat larger, say we merged them two-by-two, they could be significant in the region, but what really constrains them is not really capital. It is management expertise.

Q: Does the lighter touch in financial regulation have broader significance? Could it herald a looser political climate, for example?

A: Even in politics we have to find a style, a framework and a set of common expectations which fit our requirements and also our population. I do not see us evolving in the foreseeable future into a two-party system. I do see us having more people willing to speak and contribute and debate.

Over the past year we have increased the number of nominated members (of parliament, to nine now). They have outshone the opposition and made a significant contribution, each one carving out a certain public persona for himself or for herself.

And they have credibility. That sort of development, which is proceeding, will be constructive. I do not think the way to hasten it is to change the libel laws ... or to make political videos and have soft pictures of your leader and his wife walking off into the sunset.

Q: How can you deal with disaffected groups like frustrated young professionals and Chinese-speaking workers who have received less benefit from economic growth?

A: There are two different groups and this illustrates our problem. The young professionals who feel they want a bit more leeway, to say more things and to express themselves without necessarily being held to rigorous standards of logic or fact, are a different bunch altogether from the second group.

This second group is Chinese-educated. It is not concerned with high political discourse, but just with day-to-day bread and butter issues because they are not very skilled and unskilled jobs are getting fewer. And, if they expect to have 5 to 7 per cent wage increases every year, they will have to obtain some skills and be able to hold down better jobs.

If we followed everything the first group wanted we would never be able to attend to the problems of the second.

The reality is that in Singapore a lot of issues, political or foreign policy or security, are settled by the government taking the lead, taking the initiative. They do not resolve themselves from the bottom up. We are not that sort of society.

Q: Why did the budget not offer more tax concessions?

A: If the region is in trouble, the answer is not necessarily to step on the gas. You may just have to live through it and accept that you are going to be affected. You are going to have more uncertainty, less prosperity and considerable turbulence.

On personal tax rebates, these are rebates we can give when times are good and the surpluses are high. When times are tight and we have fewer surpluses we have to make do with smaller rebates.

This is the opposite of what some governments do. When times are bad they go in hock to the bank and when times are good they collect more taxes. But I think it is right for us.

Lee Hsien Loong: aiming for a regional centre plugged into the global network Picture: Popperfoto/Reuters

FINANCIAL MARKETS • by Peter Montagnon

Reforms with a muted bang

Emphasis is on fund management as the authorities admit need for liberalisation

Not exactly a big bang, but more a series of thunderclaps. That is the official view of the reforms taking place in Singapore's financial markets.

Even so, the transformation to a more open regulatory environment instituted by Lee Hsien Loong, the new chairman of the Monetary Authority of Singapore, promises some profound changes in the way the markets operate.

Bankers say the decision to adopt a more liberal approach to regulation which has been becoming apparent over the past few months follows a realisation by Mr Lee, who is also deputy prime minister and the son of modern Singapore's founder Lee Kuan Yew, that the city state needs to promote knowledge-based industries like financial services if it is to make its way in the global economy of the future.

Admittedly Singapore is already well established as a financial centre. It is the fourth largest foreign exchange trading centre in the world, the fifth largest trader in derivatives and the ninth largest offshore lending centre.

But growth in Singapore's financial services sector has been slowing in recent years. Competition has been growing, not just from Hong Kong, its traditional rival.

Though the impetus has slowed with the regional economic crisis, Singapore has been worrying about the development of other regional markets such as Malaysia and Indonesia and has to keep half an eye on centres like Japan which are undertaking their own reforms.

A report by a panel of experts warned in January that Singapore was lagging in the development of capital markets and in its ability to attract financial talent as well as big international fund managers. In response the government recently launched a number of initiatives, most notably in the area of fund management.

"Our vision," said Mr Lee in announcing the reform, "is to develop Singapore into the premier fund management hub in Asia in the next five to 10 years."

The strategy makes sense, bankers say, because of the catalytic effect of fund management, which brings in its wake ancillary skills from broking to custodial services.

Singapore is to more than triple to S$35bn the amount of funds placed out with private sector fund managers by the Government of Singapore Investment Corporation. The registration and distribution of unit trusts is to be made easier.

The MAS is to issue 10-year bonds to lengthen the local yield curve and deepen the capital market. Foreign listings are to be made easier on the local stock market. Simex, the local futures exchange, is preparing to launch a Singapore stock index contract.

The financial thresholds needed to acquire an investment adviser's licence, essential for fund management companies, are to be reduced and several tax breaks are planned.

So, to the delight of many international bankers and fund managers, the list goes on. The large increase in funds to be placed by the GIC met with a particularly warm response.

"Mr Lee is very realistic about what is going on globally and where Singapore needs to position itself," says Peter Hames of Aberdeen Asset Management. "The rest of the region has been deregulated and this is a large opportunity to get ahead of the opposition."

The moves to ease registration of new unit trusts was also met approval. Bankers had been complaining for some that the old process was cumbersome and could take months.

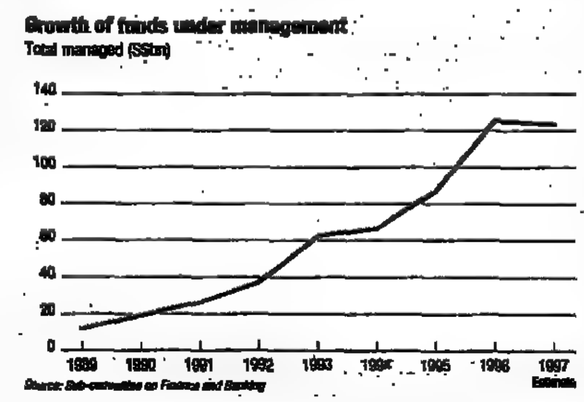
But with large amounts of money waiting to be invested that could change, says Robert Tomlin of Schroders, the British merchant bank. "It will grow very fast."

It remains to be seen how the changes will work in practice. Previous experience of efforts by the government to hand out money for private sector institutions to manage have sometimes disappointed because of the tough criteria set by the Singapore authorities. This time, however, the GIC seems anxious to expedite the process, bankers say.

Nor is there likely to be a dramatic increase in the funds under management in Singapore in the short run. Mr Lee himself admits that the total volume of funds under management probably will not grow very much over the next couple of years, but he stresses the long-term scope for this business once the region's economy recovers.

Not only will regional demand for fund management services recover as Asian economies start growing again, he says. Global demand will increase significantly over the next 20 years as working adults in Europe, the US and Japan invest more of their retirement savings in diversified portfolios.

Growth of funds under management
Total managed (S$bn)



Source: Sub-committee on Finance and Banking

Singapore has room to expand its fund management business. At present only 10 companies operating in the city state manage funds in excess of S$3bn.

But some bankers argue that the process of developing Singapore will not necessarily be all plain sailing. At the micro-level, they say, the authorities may have overestimated the ease with which a long-term bond market can be established.

To create issuing demand, the government has decided to withdraw a lot of liquidity from government institutions, such as the port, which previously were sitting on large piles of cash. These entities have thus switched from a position of natural investors to natural borrowers, but it is not yet clear who will be the new investors.

On a broader level there is some uncertainty about regulation beause of the possible conflict between the MAS's role as a regulator and as a promoter of Singapore as a financial centre. Mr Lee says the two roles will be kept strictly separate within the organisation.

The lighter touch on regulation will not involve dramatic change and will be an "iterative" process, he says, with the authorities looking carefully at the effect of change as it is introduced.

Bankers believe the changes are likely to make it easier for them to introduce new products and encourage the flair which modern financial centres need to compete. For example, they note that Mr Lee has indicated that the eligibility for thresholds for fund management licences may be waived for promising boutique firms whose managers have good track records.

In time, he says, a few may develop into larger operators – perhaps not on the scale of Alliance Capital, Templeton, Fidelity or Warren Buffet's Berkshire Hathaway, but they all started off as small companies.

Singapore now boasts a cadre of young, highly educated professionals, says Mr Tomlin. "You can't run the place under the old rules with such sparky young people coming through the system.

"These people want challenge." It looks as if Mr Lee is going to provide it.

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MANUFACTURING • by Jeremy Grant

Hand-to-hand combat as business faces crisis

Demand has fallen away and competition is gnawing at the bottom line

Cheah Kean Huat, managing director of Hewlett-Packard for Singapore and south-east Asia, does not mince his words when asked to describe the impact of the Asian financial crisis.

"It's not business as usual, it's down to hand-to-hand combat," he says. "Short term, our business is obviously affected."

As one of the largest investors in the Lion City – its diverse electronics interests account for about one per cent of Singapore's gross domestic product – Hewlett-Packard is a bellwether for the health of the manufacturing sector.

This makes up a quarter of gross domestic product and is dominated by electronics and petrochemicals, which together account for 70 per cent of that.

Mr Huat's immediate concern is to ensure that the company's network of subcontractors in the region, which are are now enjoying lower costs, are transferring those cost savings up the chain to Hewlett-Packard as fast as possible.

About 40 per cent of its shipments globally from Singapore depend on subcontractors in south-east Asia.

Elsewhere, businesses complain of stubbornly high operating costs, exacerbated by a still strong Singapore dollar and tumbling regional currencies. Asian demand has fallen away while regional competition and excess capacity in the global electronics industry is gnawing at their bottom line.

One measure of the jitters felt in the manufacturing sector came in February with the release of reports from the two main chambers of commerce. Well over half their members felt their businesses would be "hit badly" this year.

This year's budget, announced by finance minister Richard Hu a month later, offered little relief and no hoped-for reduction in corporate tax. "There was nothing much to help manufacturers tide over these difficult periods," complained Tommie Goh, chairman of JIT Holdings.

The government is taking a more sanguine view. In its 1998 outlook the Economic Development Board said it was "cautiously optimistic" for the manufacturing sector.

Singapore attracted S$8.5bn in foreign investments last year, of which 70 per cent was in manufacturing. Such funds should help Singapore move up the "value chain", the EDB believes. The electronics sector, or "cluster", received the largest share of pledges with more than 45 per cent.

The manufacturing sector grew by 4.3 per cent in 1997, with the electronics cluster managing 3.1 per cent despite global excess capacity and severe erosion of prices in the disc drive industry. Singapore accounts for 39 per cent of global disc drive shipments.

Whoever is proved right, the turmoil of recent months has concentrated minds on two familiar questions more than ever – first, whether the cost of doing business in Singapore can still be justified given lower costs in the region, and second, how secure is the future of manufacturing in Singapore given heavy dependence on the cyclical and often volatile electronics and petrochemicals businesses?

On the first question, Singapore is "very expensive already", according to Arvind Agarwalla of FACT, a software firm specialising in accounting software.

Aside from expensive expatriate housing, he cites an extremely high rate of employee turnover as one of the largest costs. Job-hopping is common as there are significant penalties if contracts are broken.

But although many businesses are starting to question the premium they are paying for Singapore's main attractions – sound infrastructure, advanced approach to the application of technology to business and strategic location – he says this still holds.

"If you're going to move now and you don't know where the [Malaysian] ringgit will stop and the [Indonesian] rupiah will start, you're really taking a gamble."

On the second question the outlook is mixed. Singapore is committed to maintaining its emphasis on electronics and petrochemicals.

"I don't see many areas we can look at that will provide the export and employment base that these sectors can generate," says EDB managing director Ho Meng Kit.

But the petrochemical industry is set for lean times. Regional overcapacity was already a feature of the market before the Asian financial crisis knocked the wind out of plastics consumption, which dictates petrochemicals demand.

Takayuki Okada, managing director of Petrochemical Corporation of Singapore, says the turmoil has sparked a 20 per cent drop in product demand. In March, Asahi Chemical announced the suspension of a US$50m plastics plant for Singapore due to the downturn.

Notwithstanding, in December, PCS, Anglo-Dutch giant Shell and others opened Singapore Petrochemical Complex II, a S$3.4bn project on Ayer Merbau and Seraya islands which doubles ethylene capacity to almost 1m tonnes annually.

Long-term prospects justified the move, says Tim Faithfull, chairman of Shell Singapore. "One is seeing quite a severe squeeze on (oil refinery) product margins and the outlook is not good in 1998. But in petrochemicals we believe the fundamentals are still strong."

In electronics the risk is not from any dip in the Asian market but Singapore's dependence on the US and Europe, its biggest buyers of disc drives and computer peripherals. Disc drives account for more than a quarter of Singapore's electronics exports.

Growth in global personal computer revenues is slowing. Intel sent a chill through the business this month with a profits warning that second quarter earnings would lag 10 per cent behind projections.

Demand for disc drives, key components in personal computers, continues to flatten, economists say. "Electronics has been the only source of momentum for export growth and this is faltering," says Paul Alapat, senior economist at Indosuez W I Carr Securities.

In January, Singapore's disc drive exports shrank 4.9 per cent. That was partly attributed to the retrenchment of 1,800 workers at the local operation of Seagate Technologies, one of the world's largest disc drive makers.

It has anchored much of its disc drive and circuit board manufacturing to Singapore in S$1.6bn worth of investments but has found the high end of the business tougher than expected due to new market entrants.

November saw the first casualty in the sector when Singapore Technologies group called in liquidators for its loss-making Micropolis disc drive venture.

Seagate chief financial officer Charles Pope says his company is determined improve competitiveness and "must implement a very aggressive regional sourcing strategy" to achieve this.

Mr Alapat says the semiconductor market offers some hope but Singapore could find itself a victim of inventory unwinding from South Korea, with a consequent depression in prices. "What you would have is a volume recovery but not necessarily in value terms"

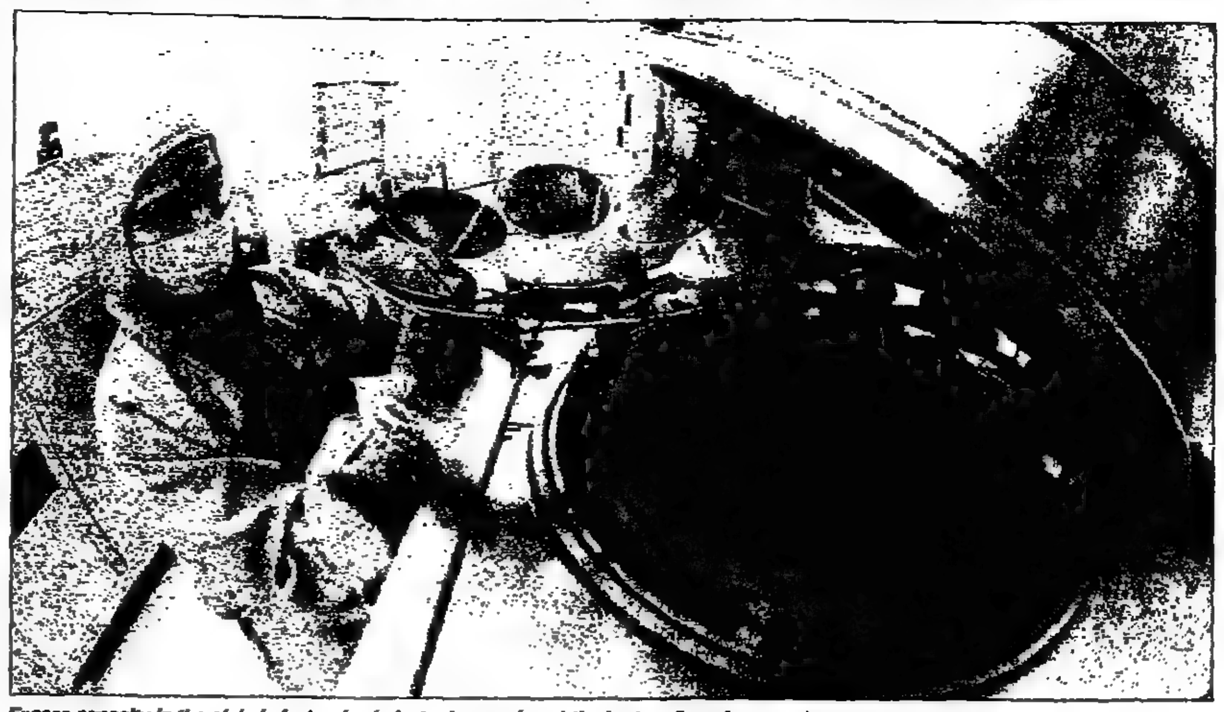
Another area of vulnerability, says Song Seng Wun, regional economist at G K Goh Research, is the maintenance of a strong Singapore dollar and an overseas threat.

"You have a relatively strong exchange rate in Singapore and industry has a relatively high import content. Import costs haven't come down that much so in terms of pricing they (Singapore electronics manufacturers) may not be as competitive as the Taiwanese who have real economies of scale."

The government realises that Singapore must encourage more value-added production in order to sharpen its competitive edge in electronics and reduce vulnerability to cyclical downturns. It has encouraged the development of wafer fabrication industries and other semiconductor support activities through introducing tax breaks and special land concessions.

Lucent Technologies Micro-electronics and Chartered Semiconductor Manufacturing are to open a US$1bn foundry by the end of the year, in what will be Singapore's tenth wafer fabrication plant.

But economists believe that the urgency to move higher up the value-added chain has been reduced by the regional economic turmoil. Mr Alapat says: "I would say they have several years before this becomes critical."

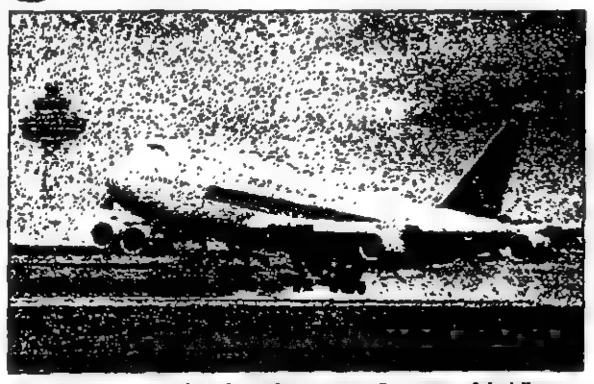


Excess capacity in the global electronics industry is gnawing at the bottom line of companies — Picture: Jonathan Drake

PROFILE Singapore Technologies Engineering

Newcomer with a bulging order book

A recently merged company has its eye firmly on the defence export market



One division specialises in maintenance of commercial airliners

While much of Singapore's manufacturing industry is expected to feel the pinch from the Asian economic downturn, there is one company that can be fairly confident of bulging order books for years to come.

Singapore Technologies Engineering is a newcomer on the corporate landscape, at least in its present form. It was created last year through the merger of four core businesses belonging to the sprawling Singapore Technologies empire – engineering, shipbuilding, automotive and aerospace.

Separately, each unit was performing reasonably well. Together, however, they form a sizeable engineering group with a diverse mix of core businesses yet streamlined research and development and financial operations.

STE is also one of the few listed Singapore companies that appears committed to returning excess balance sheet funds to shareholders if no efficient use can be found for such capital.

These factors have led stockbrokers to describe it as an "emerging blue chip name" in a corporate landscape dominated by familiar, but sometimes uninspiring, players.

"From a market perspective, all the listed units were too small to be covered. By merging it became interesting and it had to be covered," says Jason Wee, head of research at Crédit Lyonnais Securities.

But the key to its promise, and thus its allure, lies in defence. One of STE's strengths is in arms manufacture, servicing and sales.

The aerospace division specialises in maintenance of commercial airlines and the maintenance and upgrade of fighter aircraft. It recently won a (US)$75m contract to upgrade a fleet of 48 F-5 Tiger fighters for the Turkish air force.

The automative division handles repair of land-based military vehicles, the shipping unit builds and repairs military vessels and its electronics unit is involved in radar and weapons communications.

Last year STE broke new ground by designing and manufacturing an all-new tank, the Bionix, the first time such a vehicle had been produced in Singapore.

That contract, valued at S$800m, was executed for the Singapore Armed Forces, with which STE has close associations. That should help it win further business as an aggressive, government-inspired multi-billion weaponry renewal programme is under way.

SocGen Crosby, the brokerage, estimates that this is worth at least S$3-S$5bn in the next five years on top of the existing orders that each of STE's former units are bringing to the newly formed group.

Much of that will come from more orders for "made in Singapore" weapons, business that has higher value and better margins than traditional upgrading work.

Any concern over the future of the weaponry upgrading programme given the Asian economic crisis were dispelled in the February budget.

The government, despite lowering its estimate for gross domestic product growth to 2.5 per cent, pledged to increase defence spending by 11.5 per cent to S$7.2bn, or 26.7 per cent of the total budget.

Analysts believe the resulting business should help to create "critical mass" for STE to develop its long-term export capability.

Cash flows at each of the former units were irregular, given the unpredictable nature of defence contracts. But analysts say pooling the four units' businesses will help smooth the revenue stream.

STE's chief financial officer, Boon Swan Foo, wants to expand in Asia, where sales account for 5-10 per cent of total business, and into US and European markets, "as long as airlines continue to make money".

However he sounds a note of caution the recent currency turmoil. While the weakening of the Singapore dollar has helped STE – most of its revenues are denominated in US dollars – a stonger local unit might force more contracting overseas.

"It's just a matter of working within a stable currency regime. When the currencies are moving up and down like this, though, it's impossible to do much planning," he says.

Jeremy Grant

INNOVATION • by Jeremy Grant

Future looks bright for budding innovators

Education given priority as the government gets to grips with a skill shortage

Learning without thinking is labour lost; thinking without learning is perilous. – Confucius quoted in a Singapore underground railway poster campaign.

When the Bionix "infantry fighting vehicle" rumbled off the production line at a local arms manufacturer last year, it was a rare example of innovation at work in Singapore.

The machine was custom-built for the Singaporean army and included a unique suspension system that allows the tank to handle the city state's hilly terrain. This year the Bionix is being promoted abroad in a bid to capture new markets for Singapore's defence industry.

For Singapore the question of innovation means more than breaking into new markets. It is a matter of survival.

For decades the country was a byword for manufacturing efficiency based on low costs and the diligence of its well-trained workforce.

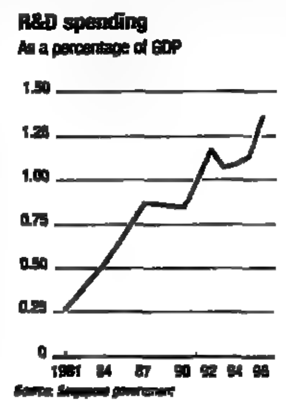
But since the early 1990s there has been a growing recognition that this will not be enough to maintain a competitive edge in a region where Singapore's rivals have been rapidly moving up the "value-added chain".

Rising costs at home are forcing Singapore to think on its feet, and that means nurturing companies with a readiness to innovate. It also means creating an environment where creative business people – so-called "technopreneurs" – can flourish.

"We are now heading towards a knowledge-intensive economy, where the requirement is not just an ability to use skills but to be creative and innovative, to find new markets. This will require a different sort of mindset among the people," says education minister Teo Chee Hean.

Although the percentage of the workforce that graduated from university has risen to about 20 per cent from only 5 per cent in 1980, this has not produced people with the creative flair needed for innovation in industry.

Ironically, one of Singapore's best known creations,



Source: Singapore government

the "Sound Blaster" sound card used for computer games, was the work of an obscure non-graduate.

Work has been going on to change that mindset which has earned Singaporeans a reputation for conformity, predictability and lack of imagination.

And, with Singapore bracing itself for a tough year due to the Asian economic crisis, innovation has suddenly assumed critical importance. Educational reforms are being pushed with renewed vigour, backed up with extra cash.

In the February budget education received a hefty 30 per cent increase in funding, with this year's spend put at S$5.7bn, or 3.6 per cent of gross domestic product.

A National Innovation Framework for Action was set up in January, building on previous initiatives encouraging industry to be more creative in research and development.

About S$2bn will be spent in the next five years installing computers in schools with the aim of encouraging pupils to "engage in more active and independent learning".

Academics from Britain's Cambridge University, Harvard and Japanese universities have been drafted in to advise the government on overhauling the entire syllabus.

University entrance criteria are under review, with more attention likely to be paid to extra-curricular activities and less emphasis solely on grades.


About S$2bn will be spent in the next five years installing computers in schools to encourage pupils to 'engage in more active and independent learning' Picture: Jonathan Drake

A-level students sitting for literature examinations will be allowed to take their texts into the examination room with them next year as a way of encouraging literary appreciation rather than rote learning.

"There is a tendency to say: this is the subject matter, these are the facts, these are the questions and here are the answers. We want to put it across to the children that this is more open-ended," says Mr Teo.

The reforms are being pursued by bureaucrats with almost messianic enthusiasm. Initiatives come with labels such as "Thinking Schools, Learning Nation".

"The Desired Outcomes of Education" is a blueprint listing the qualities required of citizens from primary school to university.

Toddlers should "love Singapore" and "have a lively curiosity about things" by the time they are ready for secondary school. The goals for 17-year old junior college students include having "an entrepreneurial and creative spirit".

Whether creativity can be taught in such a prescriptive fashion is open to question. Many students are anxious about being judged on literary appreciation.

"I am worried because you can't impress examiners with your ability to memorise passages and whole poems," one 16-year-old told the Straits Times newspaper.

Bruce Poh, director of planning and development at Nanyang Polytechnic, says it is important to show students a link between creativity and its practical application in industry. "It's more of an environment than something you can teach," he says.

In the "Hall of Innovation", examples of student creativity at Nanyang are displayed – an automated drinks can compactor, a wireless time clock system suitable for airports and university campuses.

The government is encouraging links between educational institutions and industry as a way of fostering innovation. Industry is starting to respond.

Aztech, a local company that is the world's third largest producer of modems, recently forged a partnership with the National University of Singapore involving joint R&D and student secondments to the company.

"R&D wasn't very well recognised in the past," says Michael Mun, company president. "But we are trying to change people's opinions. Now people are beginning to realise that R&D is very challenging."

While the future appears to be bright for Singapore's budding innovators the government, ever keen to guide and control, is determined to tie the unleashing of its citizens' creative juices to what it regards as productive ends.

As Mr Teo puts it: "It would be a tragedy if in our education system we produced very able creative people who turned out to be smart crooks."

PSA CORPORATION • by Sheila McNulty

Port caught in a storm plays it cautiously

World's largest container terminal operator has postponed expansion plans

Singapore's PSA Corporation may be the world's largest container terminal operator in charge of what has been the globe's largest port in shipping tonnage and transshipments. But that does not make it so robust that it will be spared from the regional financial crisis.

Half of its business involves other south-east Asian countries, where the crisis has put enormous pressure on the purchasing power of companies and therefore slowed the amount of traffic going through the port.

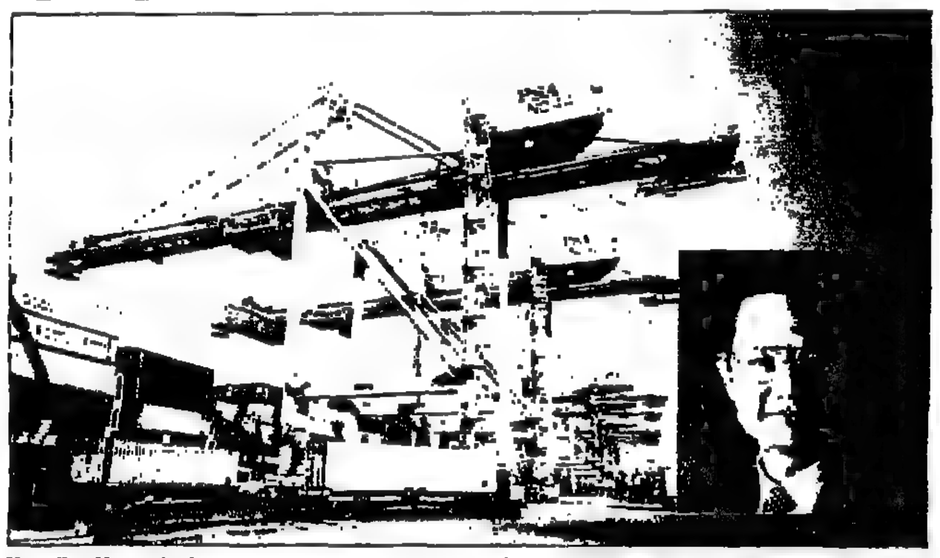
Yeo Ning Hong, chairman of PSA, says the impact has been "significant". More than six months into the crisis, there are few imports into the region and only some countries, such as Thailand, have been able to take advantage of their depreciating currencies to boost exports.

However, Mr Yeo says the rest of PSA's business is spread throughout the world and is seeing growth from countries such as Australia, China and India, which will help to offset the regional slowdown.

Although he will not provide detailed statistics on how the company is faring, Mr Yeo is projecting it will end the year in positive territory.

"We will see growth, probably single digit," he says. "But the world is changing so rapidly. Of course, if there is any secondary impact on the countries beyond the region, beyond south-east Asia, we will have to review our numbers again."

PSA has already decided


Yeo Ning Hong: the impact of the south-east Asian crisis on the port has been significant

the crisis warrants slowing expansion plans, so it will activate the second phase of a US$5bn project to build a new container terminal later than if the company had seen double-digit growth in 1997, 1998 and 1999.

The company, Mr Yeo says, can no longer afford to build ahead of demand since being privatised on October 1, 1997.

"That is a recipe for disaster because you are pouring in a huge about of money ahead of demand. Only governments can do crazy things like that."

The company has worked hard in the past few months to improve on ways the government did business, particularly with regards to customer service.

PSA now makes an extra effort to accommodate customers, for example, by making exceptions for ships that need extra fast service.

Mr Yeo expects these extras, along with the company's long-standing efficiency and connectivity, to dissuade customers from moving to ports where weaker currencies make business far cheaper.

"You can go to a cheaper port and the consequences of loss, pilferage, tampering and so on is something you worry about," Mr Yeo says.

"You can buy a pair of shoes for $5. You can buy a pair of shoes for $500. Why do people pay $500 for a pair of shoes? There must be a reason. People come to Singapore because we offer a different kind of service."

HIGH-TECHNOLOGY • by Sheila McNulty

Fast lane traffic on the superhighway

Wiring up the state will make it one of the easiest places to live and work

When Ho Meng Kit was in Germany last year he discovered the facilities were not quite up to the standards he was used to at home.

After numerous failed attempts to log on to a server, he overcame the problem by attaching his modem to, of all places, a connection outside his window and around the corner.

Mr Ho, managing director of the Economic Development Board, is from Singapore, a place where the people order taxis and cinema tickets over the Internet. In some schools they simply hold a "smart card" over a scanner on their way into class to record attendance.

And the country is instituting a nationwide electronic road pricing system, which will deduct tolls automatically from cash cards and use electronic surveillance to catch violators.

For a country that officials often note has no natural resources other than its 3m people, Singapore has no choice but to turn to technology to compete. It is doing so at cyberspeed.

The authorities' most ambitious project is Singapore ONE (one network for everyone), which will deliver a high level of interactive, multimedia applications and services to every home, school and office.

The system, touted as the world's first nationwide broadband network, allows for internet access at least 100 times faster than is now possible through normal analogue modem dial-up, using a bandwidth large enough to carry taxing data loads such as live video.

The network will include entertainment on demand, such as videos, movie previews and music, government services, on-line shopping, home banking, ticketing and other electronic commerce. Already people are ordering groceries through the system, registering for classes and watching the evening news at any time.

Companies are being encouraged through a variety of financial incentives to develop applications for Singapore ONE. Services are constantly being added, and by the end of the year all 800,000 households in Singapore will be able to connect.

Stephen Yeo, chief executive of the National Computer Board, the force behind this effort, believes wiring up the city state will make it one of the world's easiest places in which to work and live. Some believe it already is.


Singapore is using technology at cyberspeed Picture: Jonathan Drake

"It is a culture shock for an Indian to come to Singapore," says Arvind Agarwalla, chief executive officer and founder of FACT Software International, which started in Calcutta.

"You can open a bank account in five minutes. Just about everything is done via the Internet. I've been here four years and I have never been to a government office."

Size really is the key. The country is just 647.5 square kilometres so, unlike large nations like the US, wiring the nation together is a relatively simple goal.

"This is one dot. One insignificant dot. It's much easier to do things," Mr Yeo says. That enables Singapore to excel at putting new applications to use faster and more comprehensively than anywhere else.

"The country has been ranked one of the most IT literate in the world by the World Competitiveness Report. One in three households owns a computer and 267,400 people at the end of 1997 were Internet subscribers.

Recently S$2bn was committed to ensure every schoolchild has access to a computer within five years.

Although its people-less port and taxi system, which uses space-based satellites to direct the nearest cab to customers, is just one way Singaporeans have worked to apply technology in everyday lives, there is no doubt regional competition has given nationwide efforts like Singapore ONE increased urgency.

The city state's neighbour, Malaysia, is building what it calls the Multimedia Super Corridor, an area it hopes will become an international hub of high-tech, multimedia research and development.

Although the dream is so far just that, Malaysia is determined to make it a reality, and for that reason is taken seriously.

"We would be proceeding along these lines whether the MSC existed or not," Mr Yeo says. "But I would be lying if I didn't say the MSC gave us a boost."

At this rate it will not be long before the Singapore home of the future described in promotional material becomes a reality.

"Mum checks out the new on-line cooking video demo on a PC in the kitchen while keeping an eye on the monitor showing the baby asleep in the bedroom.

"Teenage daughter accesses a video e-mail from her overseas friend in her bedroom. Dad does the family's financial planning and accesses the online banking transactions from a PC in the study."

ASIA REGION INVESTMENT • by Jeremy Grant

Industry spreads its wings abroad

Industrial parks aimed at boosting regional links have fallen short of expectations

The shores of Indonesia's Batam Island are only 30 minutes by ferry from the tidy bustle of Singapore.

But, at the Batamindo Industrial Park, the only thing that reminds visitors that they are on Indonesian soil are a mosque and portraits of President Suharto that hang in factory lobbies. Although few would admit it, that is the whole idea.

Built seven years ago, the park is a joint venture between Singapore Technologies Industrial and Jurong Town Corporation of Singapore, and Indonesia's Salim Group.

More than 100 companies, 45 per cent of them Japanese, have installed themselves in the park, including Siemens of Germany, the French electronics group Thomson and Kyocera of Japan.

They have come as much for what Singapore offers as for abundant Indonesian labour, which comes at a fraction of the cost across the water. For example, a production line operator at Batamindo is paid 235,000 rupiah (US$24) a month. An equivalent Singaporean employee would cost $1,000.

The big pull is its proximity to Singapore, as well as on-site Singaporean knowhow. The park offers easy transhipment to Singapore for additional processing plus Singaporean infrastructure, technological and management support.

Patrick Lee, general manager, says the park has been profitable since its second year and makes a return on investment of 15 per cent.

It would be tempting to see Batamindo as a showcase for Singapore's "regionalisation" strategy, spearheaded by the establishment of seven industrial parks in four countries.

The drive began in 1993 when former prime minister Lee Kwan Yew launched a campaign to persuade industry to branch out abroad to avoid rising costs at home, leverage high growth and diversify investments.

By establishing industrial parks Singapore could anchor the operations of multinational corporations doing the same thing. Up to 1996, about 6,000 local companies had invested about S$44.9bn abroad, of which 60 per cent was committed to Asia.

Industrial parks of the Batamindo model have been the flagship investments in the regionalisation push, with facilities in China, Indonesia, Vietnam and India. Tenants have pledged a total of S$3.5bn.

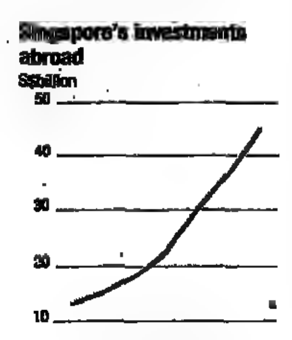
But few have been as successful as Batamindo and, although government officials put a brave face on it, they have fallen short of expectations.

"I don't think they have fared too well. They were a little too optimistic initially," says one western diplomat.

One of the problems has been that achieving commercial returns was not the only thing on the regionalisation agenda, analysts say. The parks were also seen as helping tiny Singapore build strategic ties with governments in the region.

Projects often came with the personal backing of top government figures.

Vietnam was a classic case



Source: Singapore government

for treatment. Shunned as a virtual pariah state for years, the communist nation in 1995 joined the Association of South East Asian Nations, of which Singapore is a leading member.

In short order, Singapore has become the largest foreign investor in the country, with US$6.2bn in pledges. One of its biggest investments is the Vietnam Singapore Industrial Park, a 500-hectare project near Ho Chi Minh City developed by a consortium led by Sembawang Industrial and with the support of the two countries' prime ministers.

However, political support has not done much for the park's bottom line. An economic downturn in Vietnam, coupled with the retreat of investors due to the Asian economic crisis, has slowed plans for developing beyond the present US$50m first phase of the project, says Cheong Kai Kong, general director.

"We need to target very carefully the kind of companies we bring in," he says. "We have to be cautious."

In neighbouring China, the vast Suzhou Industrial Park, Singapore's biggest single overseas investment, has proved a headache.

Built about 80km west of Shanghai, it is a joint venture between the local municipal government and a Singapore consortium led by the government's Economic Development Board.

In September, Beijing granted it the same status as China's five Special Economic Zones, underscoring political support from the communist leadership.

But the local government blithely built a rival park of its own 10km away, managing to lure investors away from Suzhou. In December, Lee Kwan Yew took matters into his own hands and flew to China, blasting "wasteful competition".

However, the government is taking a long-term view and still believes the parks are a good way of tapping into the region, says Ho Meng Kit, EDB managing director.

"Yes, we are hostages (to the local environment) but we try to change the environment at the local level," he says.

Analysts point out that the investors in the parks have sufficiently deep pockets to weather years of poor returns.

Tay Siew Choon, president of Singapore Technologies Industrial, the main investor in Batamindo, says the company "has the capacity" to build one more industrial park and is studying the Philippines as a possible future export base.

"When we went into the region we were never naive enough to think that it would be smooth," he says.

Mr Kit confirms that the government is also encouraging companies to shop for cheaper assets in the region in the wake of the Asian economic crisis. Although there has probably never been a better time to snap up bargains, this presents Singapore companies with a fresh challenge.

"Businesses that have thrived in Singapore like locally-owned banks might not fare so well in foreign countries such as Thailand, especially if those markets also open up to big international players who are used to competing in difficult environments," says the Political and Economic Risk Consultancy.

"This will put new pressure on Singapore managers to raise their standards in ways that can be competitive outside Singapore's friendly shores."

THE ARTS AND SOCIETY • by Sheila McNulty

Grip on society loosens slightly

Small concessions to the arts are intended to make the city state more attractive

Having once faced political threat from an opposition that voiced its dissatisfaction through Chinese travelling theatre, it clearly was not easy for Singapore to decide to permit street actors and musicians.

But in the past year, as the authorities made a conscious effort to find new ways to make the city state more enticing to both foreigners and locals, Singapore announced that busking would be permitted – under certain conditions and in specific places.

To outsiders the decision seemed a small one. But to Singaporeans it was a prime example of how the authorities are trying, ever so carefully, to loosen their grip on society without losing their tight hold on political control.

And for a growing number of Singaporeans who have travelled, been educated or lived abroad, and in those places experienced freedoms unheard of at home, it is most welcome.

Many in their twenties, especially the women who do not undergo the intense two years of national military service that instill in men the importance of being part of a larger nation, complain that Singapore is stifling and believe incremental changes such as those instituted to date will never be enough.

They loathe a system they complain quashes political dissent, bars satellite television, censors the internet, controls local media and constantly pressures them to buy into Singapore's material dream; content to live in a government-subsidised flat, get married and have children.

Singapore's most exploratory theatre, TheatreWorks, probed some of these feelings in a play called Descendants of the Eunuch Admiral, which paralleled the castration of ancient China's eunuchs with that endured by Singaporean yuppies as they climb the corporate ladder society lifts up to them.

This, after all, is the home of the yuppie rallying cry, the four Cs – condoms, cash, cars and credit cards.

"It's a country that encourages that. You tend to lose sight of things that are intangible and things having to do with your soul," says Tay Tong, TheatreWorks' general manager.

"The government saw that as becoming a predominant factor, so much so that they have come out with committees and sub-committees to deal with the betterment of society."

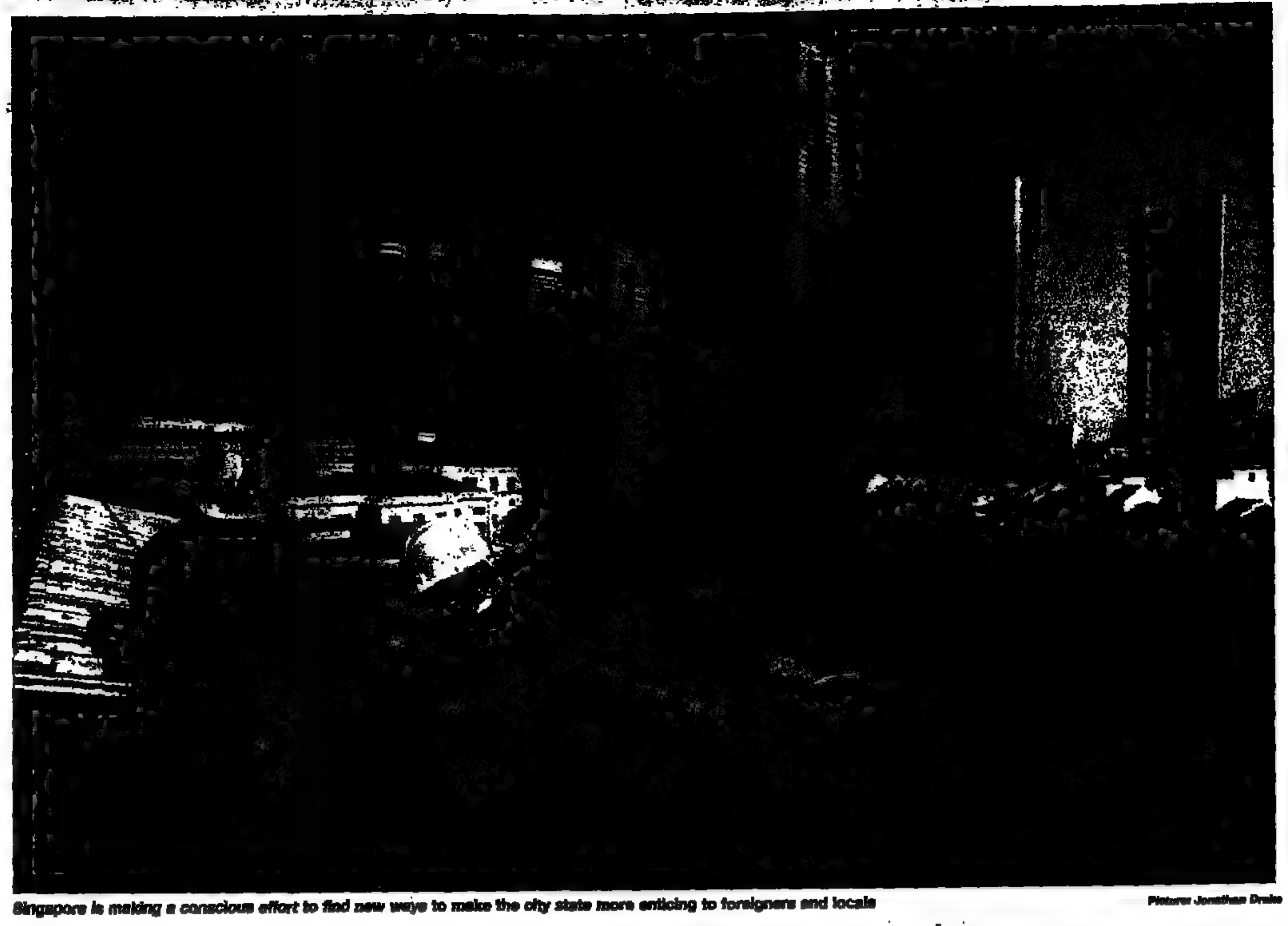
That in turn has led to the decision to turn Singapore into a regional arts hub. Many may have difficulty picturing Singapore as a hotbed of bohemian abandon in a country where selling chewing gum is illegal because it sullies the sidewalks.

George Yeo, minister for information and the arts, admits there is "a constant tension" in Singapore between the desire to retain the youth and draw in foreigners from what he considers "the ocean" while still maintaining the uniqueness of the city state's "lagoon."

He puts it this way: "The environment in the lagoon must always be different from the ocean. Then we have our own identity. Then we have our usefulness to the rest of the world ... It means everyday worrying about what's coming in and what's going out."

The authorities do not believe they must entirely liberalise society to have the type of flourishing arts centre that will continue to entice people into the lagoon.

They are focusing first on developing museums, building theatres, launching an arts radio station, hosting an annual arts festival.



Singapore is making a conscious effort to find new ways to make the city state more enticing to foreigners and locals

Picture: Jonathan Drake

Some of the results in the Singapore Art Museum already show a tolerance for questioning society. One piece that stands out attacks the oppression of women in patriarchal communities, comparing the pain of women who bound their feet in 19th century China with those today who bind their torsos to conform to society's image of feminine beauty.

But there are clearly areas that are out of bounds for Singaporean artists and it comes across most clearly on stage. The Boom Boom room, which is billed as satirical theatre, is overwhelmingly adolescent.

Its shows touch on sexual taboos such as cross-dressing, and appear to snigger at national service in a dance of navy men in torn shirts, but stay quite clear of anything more controversial.

Artists say the authorities consider much to do with race, religion, politics and sex off limits. Government censors recently provoked controversy by cutting a tame nude scene from the Hollywood film Titanic though, interestingly enough, let minutes of Demi Moore's breasts slip by in the film Striptease.

TheatreWorks' Mr Tay explains that the authorities can sometimes be persuaded that something they might normally cut can stay as it will serve a greater purpose than titillating the audience.

Although his group is among a select few that no longer have to have scripts approved before opening night, Mr Tay notes that the authorities still reserve the right to shut down productions if they do not like what appears on stage.

That results in self-censorship and, beyond that, the question of the audience's reactions. This is a place which, after so many years of repression, is so prudish and naive that the Society for the Study of Andrology and Sexology moved to provide sex education last year after finding couples who for years did not consummate their marriage because they did not know how.

"Being an artist here is a challenge," Mr Tay says. "You always have to negotiate, not just with the authorities, but with the audience. Will *they* accept it?"

NEW FILM • by Sheila McNulty

Co-writer and director Eric Khoo hides nothing in *12 Storeys*

Frank look behind the dream façade

A new film sheds light on the huge pressures bearing down on the silent majority

The film *12 Storeys* confronts the anguish of many Singaporeans in a frank way. It uses rich imagery to delve deep into the lives of three families living, like the majority of Singaporeans, in a featureless government-built housing block.

The first Singaporean film to be invited to the Cannes Film Festival, it opens with a deeply depressed man throwing himself off the 12th storey balcony.

We never learn what pushed him to take his own life, but the scene sets the stage for a rare, and surprisingly uncensored, look at the enormous pressures Chinese culture and modern day society place on Singaporeans and the indifference to suffering it creates.

Co-writer and director Eric Khoo hides nothing, using full-frame shots of painful faces mirroring the anguish of the characters.

The suffering of those unable to meet society's expectations is palpable on the face of an obese woman who watches in misery actual Singaporean television commercials showing blissful married couples. These advertisements are aired regularly as part of a government campaign to encourage citizens to marry and have children.

The obese woman is brutally criticised for not living up to these ideals through a continuous barrage of vicious insults by the woman who raised her and a group of gossiping men lounging at the block's canteen.

A concurrently running story tells of a man tortured by the same expectations. He longs for children but the young, beautiful bride he brought back from China refuses to give them to him for failing to meet the material desires he promised her.

The wife's unhappiness is compounded because she left the man she truly loved in China to chase the wealth of Singapore. The film is relentless in its portrayal of the importance of material success in Chinese and Singaporean cultures and the misery it often brings.

The drama unfolding in yet another flat explores how traditional Chinese role models are shattered by the clash of Singapore's rapidly changing generations. The matter is brought to life through the struggles of an eldest son dutifully putting the needs of the family above his own.

He is depicted as the model Singaporean, exercising in the morning, eating a good breakfast and trying desperately to keep his spoiled and apathetic brother and sister in line. He pays for their studies, even shares a bedroom with them, while sacrificing the chance to buy a larger flat and a car.

Wearing a T-shirt boasting, "My Block is the Cleanest," he lectures about studying hard and being gracious. Lazily watching TV, they mock these government-nurtured ideas and belittle him for sacrificing his own life for them.

He is crushed when he discovers his sister is dating a pimp and lost her virginity at 13. Enraged, he becomes society's bad guy, arrested for taking out his anger on the community garbage bins with a stick.

This intense insight into the shortcomings of the Singaporean dream is a valuable step toward the insular city state's realisation that, while economic statistics point only to success, there are serious social problems across the city state that merit examination.

The film *12 Storeys* mirrors the anguish of the characters

INTERVIEW: TONY TAN • by Peter Montagnon

Best defence is deterrence and diplomacy

Basic philosophy is to be prepared for the worst in the belief that it will never happen

As a small country surrounded by large neighbours, Singapore has always felt the need to pay close attention to defence.

Its basic philosophy, says Tony Tan, defence minister, is to be prepared for the worst in the belief that the mere fact of such preparation will help to ensure the worst never happens.

For the first time in many years there now appears some prospect of this philosophy being put to a serious test. The economic crisis and social unrest in Indonesia have raised concern that the delicate security balance in south-east Asia could be upset.

"If there is instability in Indonesia it will destabilise the whole region," says Mr Tan, a softly spoken and donnish mathematician who has combined a career in banking with politics. "Instability in Indonesia could threaten the free passage of ships through the Straits of Malacca, which is a major sea lane for international maritime traffic, and this would be of concern for the whole world."

In their public utterances Mr Tan and other Singapore officials make it clear they expect the Indonesian authorities will succeed in preventing unrest. But privately there is no doubting Singapore's concern.

As the situation in Indonesia deteriorates analysts have become fond of predicting the disintegration of the country in a manner similar to that of the former Yugoslavia. Now is therefore definitely the time for Singapore's defence forces to be prepared.

Already, notes Mr Tan, there has been an increase in piracy in the waters around Indonesia and Singapore, and the Singapore authorities are picking up increasing numbers of illegal immigrants crossing the narrow channel between the two countries in small boats.

Few people actually expect hostilities to break out, but memories are being revived of the turmoil at the end of President Sukarno's reign in the mid-1960s, when Indonesian *agents provocateurs* managed to let off bombs in the middle of Singapore.

The importance of the shipping lanes as Singapore's confined airspace – jets often use Indonesian airspace in the approach run to Singapore's Changi airport – means the concern is real.

Last year, says Mr Tan, Singapore bought four second-hand submarines from Sweden which are designed to give its navy an underwater capability in precisely the kind of shallow congested waters that Sweden has to defend around its territory.

Mr Tan has also recently announced the planned purchase of a small number of attack helicopters.

Singapore's defence policy rests on two legs, deterrence and diplomacy, says the minister. The purchases are part of the deterrence side, which involves continuously investing in defence and upgrading capability.

"We do this not only in good [economic] times but also in bad times because we take the view that to have an effective defence capability we have to plan and invest over many years, not on a short-term basis," he adds.

On the diplomatic front Singapore believes the best defence involves having a network of strong bilateral and multilateral relationships with countries outside the region as well as within it.

Thus it has been an active promoter of the Asean Regional Forum, which brings together south-east Asian countries with leading world powers to discuss security issues.

Singapore also attaches great importance to the so-called five-power defence agreement which links Singapore, Malaysia, Britain, Australia and New Zealand in collaboration on defence issues, notably through joint exercises.

"For Singapore and Malaysia it provides an assurance that our security is not only of concern to our two countries here, but also of concern to a wider community," says Mr Tan.

"For Britain, Australia and New Zealand, it provides an opportunity to show that they are still strongly committed to this part of the world."

Another plank of policy is support for the US military presence in south-east Asia. Singapore made available facilities for the repair and maintenance of US aircraft and ships after Washington was forced to abandon its bases in the Philippines in the 1990s.

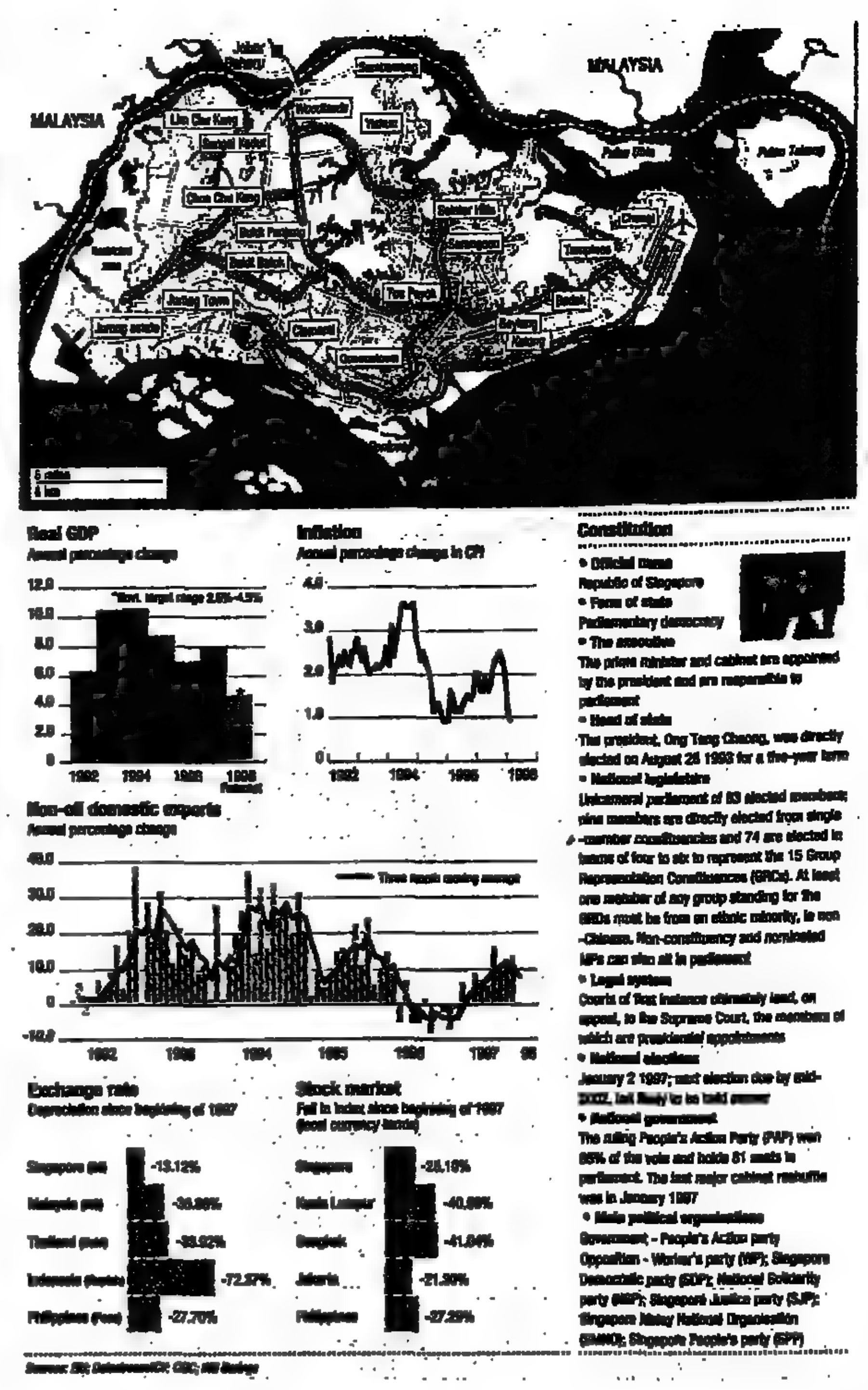
Further evidence of the close relationship came from the recent announcement that deep-water berth facilities would be made available to the US at the Changi naval base.

But increased regional concern does not mean that Singapore is significantly stepping up its spending on arms. Last month's budget provided for a modest increase in defence spending to 4.82 per cent of gross domestic product from 4.4 per cent. Singapore is still well below the 6 per cent which could in theory be earmarked.

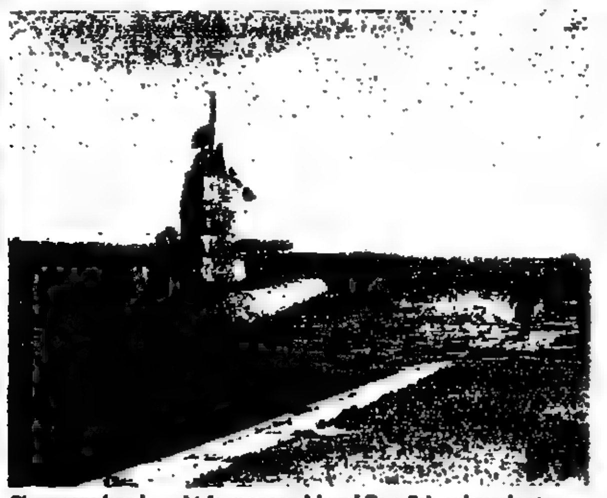
Mr Tan says: "This is about all our armed forces can actually absorb in a useful way. Just because we can spend up to 6 per cent in any one year doesn't mean we actually try to spend all of it."

The aim of defence spending is to build up a defence force through continuous investment. "It can only take one year for the security situation of a country to change dramatically, but it takes many years to build up a credible and effective defence capability."

Singapore has always felt the need to pay close attention to defence



Tony Tan: fears instability



Singapore has bought four second-hand Swedish submarines

POLITICS • by Sheila McNulty

Internet lets the genie out of box

Now the public do not have to rely on controlled media accounts of politics

It started out as a rather difficult year. Singapore's ruling People's Action Party had scored its biggest electoral victory in 16 years, winning 81 out of 83 seats in parliament and 65 per cent of the popular vote on January 2, 1997.

But it had done so only after provoking indignation by warning that the authorities would defer renovation of government-built apartments in which most Singaporeans live, in the residential precincts which did not vote for the ruling party.

The leaders then sued two losing candidates from the opposition Workers' Party for libel in lawsuits which critics said were both unnecessary and overdone.

But in recent months, as the east Asian economic crisis edged the election and all the criticisms that came with it off centre stage, the PAP has moved back into the spotlight.

Singaporeans are increasingly appreciative that the ruling party's long-term economic management has positioned the country far better than its Asian neighbours. The timing for the PAP could not have been better.

The housing issue and lawsuits had not only stirred emotions in those who perceived them as bullying tactics but the court cases also subjected Singapore's leaders to close scrutiny by George Carman, a Queen's Counsel from Britain. Mr Carman went further in defending his clients than any Singapore lawyer might have dared, at one point accusing the prime minister, Goh Chok Tong, of being "economical with the truth".

He also charged that "this litigation is designed to bankrupt this [opposition] man to keep him out of parliament". Even though the leaders eventually won the lawsuits, many believe it was damaging to have such accusations directed at the prime minister.

Even George Yeo, minister for information and the arts, says that amid the legal wrangling "the political ground was somewhat unsettled". He believes that was because much of the public could not fully grasp the complicated issues at stake.

Critics say that although Singaporeans understood why the leaders felt it necessary to defend their reputations, the lawsuits backfired because many believed they were politically motivated.

But now, Mr Yeo says, the PAP is secure. "No one grumbles today in Singapore, young or old, about the government being careful with its finances or accumulating surpluses. There is general relief."

Harish Pillay, who is part of the 18-member Round Table recently formed to give those outside politics a forum through which to express their views, agrees with that assessment.

But he adds that he, for one, had never taken issue with PAP's monetary policy. Instead, he is bothered by decisions such as the recent one to ban political videos, something he considers totally unnecessary.

But, even as the authorities embrace increased social discourse and liberalise business to keep from driving away both local and foreign talent, they continue to make it clear they will persist in taking steps to ensure that the public's newfound freedom will not spill over too far into politics.

This is a mission made increasingly harder by the latitude provided by the internet. Now Singaporeans do not have to rely on government-controlled media accounts of political campaigns, for instance, but can read eyewitness reports by those in attendance. Policy debates on-line are unfettered.

"The genie is out of the box," says Mr Pillay. "And you can't put it back in unless you cut all telephone lines."

This the authorities clearly would never do as it would undermine efforts to lead the global technological revolution. So instead they are working hard to cultivate youth by including, instead of alienating, it in the decision-making process.

"There is a strong determination to suck in those in the twenties," says Mr Yeo. "They look at the main party and think we are quite dusty and boring. But we have a line to them. We will change them. They will change us." And it will all be according to PAP's ground rules.

There is no doubt these rules have become looser in recent years. Even as the ruling party works hard to rebut the opposition, it is now willing to listen to the Round Table and has nominated nine members of parliament to provide alternative voices.

Lee Hsien Loong, deputy prime minister and son of Singapore's founding father, Lee Kuan Yew, welcomes exchanges with these groups.

"We can have a debate with them because they are not out to bring the system down. And if they make sense, we will take their views into account."

But that is as far as it goes. He does not see Singaporean politics evolving in the foreseeable future into a two-party system.

That leaves movements within the PAP as the most important to watch. Observers note that Mr Lee increasingly appears on centre stage. He now heads the *de facto* central bank, the Monetary Authority of Singapore, and in recent months has announced liberalisation in the financial sector while appearing often in the media.

His lymphatic cancer has been in remission for five years, long enough to signal he is out of danger. Some believe this is behind his increasingly public appearances.

Others say it is because Mr Goh is now confident enough to allow Mr Lee to upstage him domestically. After all, PAP's showing in last year's election erased memories of the lowest-ever 61 per cent of the vote gained in Mr Goh's first election in 1991, when his party lost four seats to the opposition.

It is quite clear the regional crisis has given him a more important international role to play. Mr Goh has not only been consulted by President Bill Clinton about events unfolding in east Asia but has also proposed strategies to help Indonesia's export markets and made peace with neighbouring Malaysia so the countries can confront the crisis together.

Mr Goh has said he will serve out his full term, which runs until mid-2002, so that assures him of several more years in power. If he can keep the financial crisis from undermining all PAP has built over the years both he and the ruling party should emerge in good standing.

Goh Chok Tong with a voter's child on polling day Picture: Jonathan Drake

FOREIGN POLICY • by Peter Montagnon

Diplomats take a course in economics

Closer ties with the US are an important part of the post-crisis foreign policy

While Singapore's economy has weathered the crisis better than some, the city state has had to accept a profound impact on its foreign policy.

As a small country with little clout of its own, Singapore has long sought shelter in groups. In particular, it has sought to push the role in world affairs of Asean – the Association of South East Asian Nations which also groups Malaysia, Thailand, Indonesia, the Philippines, Brunei, Vietnam and Burma.

But now, as these countries are increasingly preoccupied with their own problems, Asean seems a distinctly weakened force.

Singapore's leaders thus face a loss of influence just at a time when they are becoming alarmed at the economic and political upheavals in their large southern neighbour, Indonesia. Diplomats say they have had to read up rapidly on economics which has begun to pervade much of what they do.

The foreign policy strategy that is emerging rests on two main planks. The first is to reinforce the view that Asean is not a spent force and will bounce back as an important regional grouping in the longer term. The second is to try to keep as many world powers engaged in south-east Asia as possible.

Singapore is keen to encourage friendly relations with the US, to whom it recently offered deep-water naval berth facilities, and is pressing for a strong result from the forthcoming Asia-Europe summit in London.

In the background, however, remains the belief that it would be premature to write off Asean, a grouping that until the crisis struck was emerging as an important counterweight to China in the region.

"The primary goal of Asean is to deliver peace in the region," says Kishore Mahbubani, permanent secretary at the foreign ministry. "As long as it does that it delivers something very precious."

Though some policy analysts acknowledge that Asean has proved weak both in economic co-operation and especially in dealing with environmental matters, they believe its efforts to promote democracy in Cambodia demonstrate a new willingness of members to involve themselves directly in the affairs of others.

The economic crisis and the dense smog which blanketed much of the region for several months last autumn have served as a reminder that co-operation cannot be effective without some plain speaking, hitherto regarded as taboo.

Besides, says Tommy Koh, ambassador at large and executive director of the Asia-Europe Foundation think tank, adversity has drawn Asia closer together. Singapore has taken the lead in pushing for a large export credit facility to finance essential supplies for Indonesia.

Citing the improved relationship between Malaysia and Singapore, seen by many as a direct response to worries over Indonesia, he says it would be a mistake to underestimate the strength of Asian solidarity. "People keep writing us off, but each time we surprise them," he says.

Singapore's regional sensibilities are one reason why it is reluctant to join the Organisation for Economic Co-operation and Development despite its high living standards and pressure from Japan and South Korea, the organisation's two Asian members.

Mr Koh says Singapore wants to wait until other Asean nations are ready to join, though he believes that in the meantime the city state could sit on some OECD committees, such as those on finance and investment, that are relevant to its economy. For the time being, however, there is little doubt that Asean's ability to make its presence felt will be limited. This is pushing Singapore to place more emphasis on bilateral relations with other powers, especially the US.

Direct contacts between President Clinton and prime minister Goh Chok Tong over Indonesia are seen as important in this regard.

There is some disappointment over what is perceived as a lack of leadership provided by Japan in helping to resolve the Asian crisis, but analysts say they are appreciative of the supportive role of China, especially through its determination not to spark a further round of financial market turbulence by devaluing its currency.

As part of the aim of keeping the world involved, there is also strong emphasis on the need for a positive result from the forthcoming Asia-Europe summit.

Singaporeans have been stressing the economic stake that Europe has in the region and their disappointment that it has been slow to provide help to Thailand and Indonesia. Recently Lee Kuan Yew, senior minister, went out of his way to point out that European banks had collectively more loans outstanding in Asia than either Japanese or US banks.

"The summit will be a real test of the Europeans," says Mr Mahbubani. It offers a "tremendous" opportunity to demonstrate long-term involvement in the region, but for that a solid result is needed.

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INSIDE

Pro Sieben puts focus on German TV

Georg Kofler (left) is enjoying his role as a pioneer. The chairman of Pro Sieben, the German media group floated on the Frankfurt stock market last year, credits his company with having brought more commercial focus to Europe's biggest television industry. The result, Mr Kofler says, will be a speeding up of consolidation within the German commercial television market, as unprofitable networks are taken over or closed down. Page 21

Japanese gloom hits sentiment

The Nikkei 225 average fell almost 3 per cent, as last week's reflationary package failed to lift sentiment and the government's share price support operations were apparently ineffective. A sign of Japan's desperate economic straits emerged in the form of a 3.3 per cent drop in industrial production in February and an expected 2.5 per cent fall in March. The yen weakened on the news, falling below Y132 against the dollar in European trading. Page 42

Zimbabwe growers face tough year

Zimbabwe tobacco growers are expected to face lower prices at Harare's flue-cured tobacco auctions, which start today. The economic slowdown in Asia and the impact of the $31bn payout by US tobacco groups in legal settlements are the main causes. Tobacco accounts for a quarter of Zimbabwe's exports and could be more important this year because of problems experienced by exporters of other commodities, such as gold, ferrochrome, nickel and asbestos. Page 32

Italy's stock continues to rise

Italian investors have been cheering the remarkable performance of the Milan stock exchange. This year, the broad Mibtel index has gained more than 40 per cent after rising almost 60 per cent in 1997. The increase looks set to continue, thanks to Italy's intended entry into economic and monetary union,, an annual inflation rate of 1.6 per cent, the prospect of further interest rate falls and new privatisation issues, and heavy liquidity in a country with one of the world's largest savings rates. Page 42

Dollar breaks out from D-Mark range

The US dollar cracked through the ceiling of the range it has traded in against the D-Mark for the past three months. It closed at DM1.8448, a rise of over 1.8 pfennig from its closing rate on Friday. Some traders saw the D-Mark's weakness as a delayed reaction to Friday's Bundesbank report on economic and monetary union, which criticised the convergence efforts made by some countries hoping to join the single currency in the first wave. Page 31

Finance for Brazilian cellular service

A consortium led by BellSouth International of the US and Banco Safra of Brazil has raised US$1.75bn through a floating-rate note issue to finance cellular telephone services in the city of São Paulo. Page 30

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MARKET STATISTICS

BMW to promote identity of R-R Motors

Non-executive directors to join new board that will emphasise independence and Britishness of luxury carmaker

By Haig Simonian, Motor Industry Correspondent and Roger Taylor

BMW will today announce plans to reshape the board of Rolls-Royce Motor Cars to emphasise the independence of the UK luxury carmaker it is buying from Vickers for £340m ($568m).

The new board, intended to show Rolls-Royce's "Britishness", will for the first time include non-executive directors.

One will come from Rolls-Royce, the aero-engines group that owns the rights to the Rolls-Royce brand and that has a jet engines joint venture with BMW. The aero-engine company welcomed the deal and said it would negotiate "appropriate compensation" from BMW for the use of its name.

Up to two other non-executives will come from BMW. However, the German group may appoint some further non-executive directors from outside its ranks to underline its desire not to dilute the UK carmaker's special British image.

The structure is designed to minimise hostile reactions to the takeover, particularly by Rolls-Royce buyers in Britain, which is still by far the company's biggest market.

The risk was highlighted when a consortium of Rolls-Royce enthusiasts that made an unsuccessful bid for the company attacked Vickers as "high-handed and arrogant" for the way it quickly agreed to the deal with BMW. The consortium said Rolls-Royce should have stayed in British hands and it promised to challenge the decision by topping BMW's offer. The structure is intended to avoid the mistakes BMW made with Rover, the UK car group bought in 1994, where its "softly, softly" approach to the company at the outset is now widely seen as having been too lax.

Graham Morris, chief executive of Rolls-Royce Motor Cars and a Rover director at the time of BMW's takeover, said: "I would welcome very targeted and focused assistance very quickly. We are a small company and we are stretched." Bernd Pischetsrieder, BMW's chairman, declined to answer detailed questions ahead of his group's annual press conference in Munich today. However, an obviously relieved Mr Pischetsrieder said: "We are delighted BMW will in the future be able to offer a full range of British products from the Mini to the Bentley and Rolls-Royce."

He will emphasise BMW's wish to maintain Rolls-Royce Motor Cars as a separate company, but tighten its links with the German group. Among the immediate benefits will be a reduction in costs from joint purchasing of materials and components. Vickers said it would return part of the proceeds from the sale to shareholders but could not yet say how much. The remainder will be invested in the company's marine propulsion and defence divisions.

Analyst said the company had received a good price but warned it could face a tax bill on the proceeds of up to £60m. Vickers' share price closed at 228p, down 5p.

Embarrassment of riches, Page 18
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US DRUGS GROUP BRINGS HOPE TO MEN WITH ERECTILE DYSFUNCTION

Rhinos breathe easy as FDA approves Pfizer's 'aphrodisiac' pill

By Daniel Green in London

The amount of rhinoceros horn seized by customs proves the demand for drugs that improve male sexual performance. This demand is one of the factors behind the sums of money some analysts predict the drug Viagra will bring in for its maker, US drugs company Pfizer.

Last Friday, the US Food and Drug Administration approved Viagra for a condition doctors call "male erectile dysfunction". In non-medical terms, it is about as near an aphrodisiac as the mainstream pharmaceuticals industry has yet reached.

Viagra is not the first treatment for male erectile dysfunction, but it is the first that is a simple pill rather than, for example, an injection.

Pharmaceuticals analysts' forecasts diverge enormously as they decide what this might mean for demand and sales.

Analysts at Merrill Lynch forecast Viagra's sales will reach $350m this year, $730m next year and $1bn in 2000. That would make it a blockbuster drug but not the best sales take-off in the drugs industry's history. That was Lipitor, the cholesterol-reducing drug also sold by Pfizer.

Analysts at Goldman Sachs take a different view. They say sales will rocket to $1.5bn in 1999.

Analysts will not say publicly whether their forecasts assume the growth of a black market for the drug.

Pfizer itself is cautious. "It is extremely difficult to predict sales because only about 5 to 10 per cent of patients who might benefit tend to come forward," says the company.

One possible cause for this reticence is that existing treatments are uncomfortable and usually lead to an erection whether or not it is desired. Pfizer says patients taking Viagra still require sexual stimulation for the drug to work.

But another possible cause for slow sales of impotence drugs is that men are too embarrassed to admit they might benefit from treatment. It is a problem Pfizer may have trouble addressing.

"They might find it difficult to sell Viagra in countries where there is a macho culture," said one analyst yesterday.

Growth may also be slow in Europe because of a reluctance by government-funded healthcare systems to pay for a drug that does not treat a life threatening condition.

Viagra costs $7 a pill. That might equate to $700 a year, which many doctors and health bill payers might regard as poor value when compared with antibiotics or Alzheimer's disease treatments.

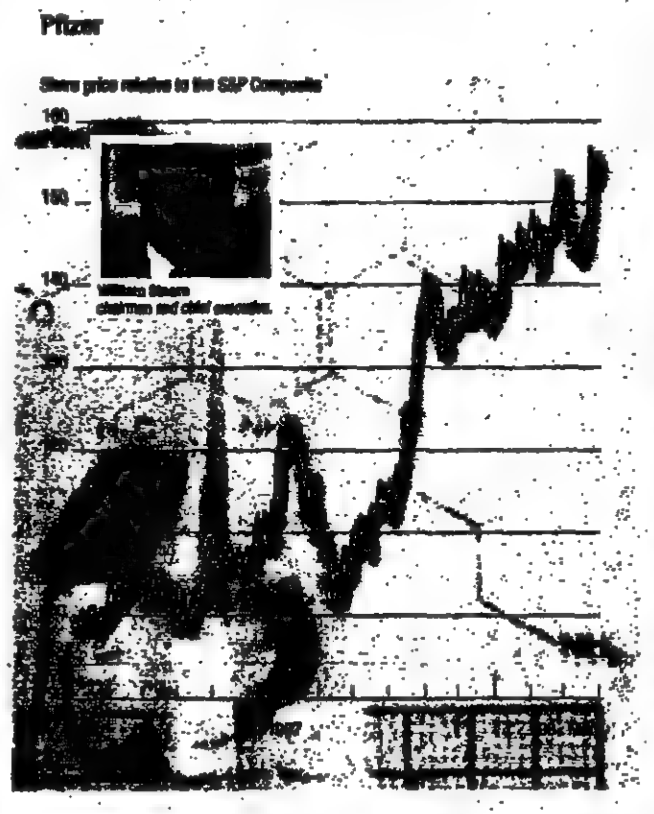
France, for example, dug its heels in on price when UK drugs company Glaxo Wellcome tried to launch its migraine pill there.

Nevertheless, a European launch is likely this year. Viagra was submitted to European health regulators in September 1997, the same time as the FDA submission. European regulators take about a year on drug applications.

For Pfizer, Viagra will add to the company's reputation as one of the most effective in the industry. The company's shares have outperformed the US market every year since 1994 and have grown twice as quickly as the average pharmaceuticals company share in the US since 1990.

William Steere, chairman, has long played down suggestions that the company needed to join in with the recent wave of multibillion dollar mergers and acquisitions.

Pfizer may not be interested in corporate acquisitions, but it is happy to acquire products: Lipitor came from US rival Warner Lambert, and arthritis drug Celebra is licenced from GD Searle, the drugs subsidiary of US company Monsanto.



William Steere: chairman and chief executive

Starwood to separate hotels and gaming

By John Authers

Starwood Hotels & Resorts Worldwide, which last year bought the ITT group of hotels for $10.2bn after a savage bidding battle with Hilton Group, is restructuring itself into two separate operating groups for hotels and gaming.

The move, announced yesterday, was interpreted as the prelude to a spin-off of the company's gaming interests, which could otherwise weigh heavily on its share price. It also follows developments in Congress last week which made it almost certain that the company will soon lose the beneficial tax status it enjoys as a paired-share real estate investment trust (Reit).

Barry Sternlicht, chairman of Starwood, said the goal was "to refine and maintain brand integrity while putting in place the most streamlined operating organisation that would be motivated to cross-sell and enhance revenue while driving the cost of operations lower".

He added that although each group will be run by separate management teams with separate chief executives, they would still share synergies in purchasing and marketing costs created by the scale of the overall organisation.

Starwood's two divisions will now be located in different parts of the country, with Starwood Hotels relocating to just outside New York, either in Westchester County, New York state, or in Fairfield County, Connecticut. The gaming group remains in Las Vegas. Functions to be consolidated include central reservations systems, franchise operations, central sales offices, frequent guest programmes, call centres, purchasing and payroll and benefits.

A restructuring was thought likely after the company's acquisition campaign of the last two years, which has left it with an unwieldy collection of businesses. Before buying ITT, which included the Sheraton chain and New York's St Regis hotel as well as a range of gaming operations, it had bought the Westin Hotels & Resorts group for $750m.

The hotels group will include the St Regis and the Westin, Ciga, Sheraton and Four Points brands, along with several independent brands.

The gaming group is centred on Caesars World, best known for its Las Vegas and Atlantic City operations and bought as part of the ITT acquisition. Its chief executive will be Peter Boynton, the exiting chief executive of Caesars World.

Juergen Bartels, a 57-year-old who was chief executive of Westin before it was acquired by Starwood, will be chief executive of the hotels group.

The market appeared to respond positively to the news, with shares in the company rising $⅝ to $53⅛ by midday.

Acheson costs ICI $560m

By Andrew Edgecliffe-Johnson

ICI continued its move away from commodity chemicals and towards speciality materials yesterday with the $895m acquisition of Acheson, a Michigan-based electronic materials producer.

The acquisition, which will cost ICI $560m after taking into account cash and liquid assets on the balance sheet, is its second large purchase in a week.

Last Thursday it spent £350m ($585m) on most of the European home improvement business of Williams, the former conglomerate.

Acheson will fit within the electronic and engineering materials businesses of National Starch and Chemical Company, which ICI acquired last year in its $2.5bn purchase of Unilever's speciality chemicals business.

James A Kennedy, chairman and chief executive of National Starch, said the deal would enhance ICI's earnings immediately, but ICI's shares fell 16p to £10.22.

Acheson made a $46m profit before interest and tax last year, on sales of $189m. It had net assets of $218m, meaning that more than $300m of the consideration is goodwill.

Acheson, which was founded 90 years ago by a friend of Thomas Edison, the inventor of the lightbulb, is number one or number two in all of its chosen markets. These include coatings for cathode ray tubes, membrane touch switches for computers, and conductive coatings for shielding in personal computers and mobile telephones.

National Starch, which has a range of adhesive and bonding technologies in subsidiaries such as Ablestick Laboratories, expects "significant" synergy savings in raw materials purchasing, sales and technology.

Both Acheson and ICI's equivalent companies have recorded double digit sales and growth and annual earnings growth of more than 20 per cent in each of the past four years.

Mr Kennedy said the deal was consistent with National Starch's strategy of enhancing its leading global position in high value electronic and engineering materials.

ICI also announced the formation of a joint venture with BASF of Germany to build a Chinese plant to manufacture MDI – a central component in manufacturing polyurethane foam and other polyurethanes.

Neither group would release financial details of the investment in the plant before acceptance by their Chinese joint venture partners, who were not named in the announcement.

The plant will be able to produce 160,000 tonnes of MDI each year.

S&H bought by UK group

By Andrew Edgecliffe-Johnson

Jack Hutchings, who founded Fort Lauderdale-based S&H Fabricating & Engineering 25 years ago, yesterday sold his company to TI Group of the UK for £212m ($350m). Mr Hutchings, who is registered blind, still owns 100 per cent of the private group, which is the largest manufacturer of power-train fluid handling systems in the US. The deal also represents the biggest acquisition by TI since Mr Bill Laule took over as chief executive in October last year.

S&H, which makes components for car air conditioning, oil cooling and power steering systems, has net assets of $65m, so the acquisition includes a large element of goodwill. TI would not give further details of the group's profit or sales at this stage.

The world market for power-train systems is worth about $1.6bn annually, of which TI previously had just 4 per cent, compared to its 40 per cent share of the brake market and 19 per cent share of fuel systems. S&H is believed to have about 40 per cent of the US market, or about 14 per cent of the world market.

TI said earlier this month that it had about £600m to spend on acquisitions and was talking to a dozen companies.

S&H is being bought by Bundy, TI's fluid carrying systems division, which already has brake and fuel system operations.

Mr Laule said it was "an absolutely beautiful, natural, perfect fit" for Bundy and he saw significant opportunities to give S&H's technology a wider distribution through Bundy's 95 facilities around the world. About 90 per cent of S&H's sales are in the US.

Mr Laule said: "Globalising this business will not be difficult at all for TI. Our customers are encouraging consolidation among their supplier-base."

TI is not expecting heavy restructuring costs, but sees potential synergies with its refrigeration business. Interest cover will improve from 16 times to 18-19 times as a result of the deal.

THE BATTLE FOR ROLLS-ROYCE MOTOR CARS

GERMAN CARMAKER SAYS THAT IT HAD BEEN PREPARED TO DEVELOP ITS OWN LUXURY '9 SERIES' IF ITS BID HAD BEEN UNSUCCESSFUL

BMW embarks on its route to the top

By Haig Simonian, Motor Industry Correspondent

Speaking recently to *auto motor + sport*, the German motoring magazine, Wolfgang Reitzle, BMW's product development guru, said that if his company failed to buy Rolls-Royce, it would simply develop a "9 Series" to cap its current top of the range 7 Series saloon models.

After its successful bid, BMW may have found a cheaper and less risky route into the top echelon of the world car market than building the hypothetical model.

But the coming years will require heavy investments by the German group to develop what it believes is the full potential of the Rolls-Royce brand.

Bernd Pischetsrieder, BMW's chairman, set out a potential way forward for the UK company at the Geneva motor show last month.

It involved two unspecified new models which would raise output at the Crewe company to 6,000 cars a year and double employment to more than 5,000 over the next decade. Although Mr Pischetsrieder chose his words carefully, those present assumed immediately the £1bn investment required corresponded to what BMW expected to spend.

Both schemes certainly fit in with Rolls-Royce's own long-term ambitions and BMW's product strategy, even if the sums involved seems astronomical for the cash-starved UK company.

With Rolls-Royce's Silver Seraph, the replacement for its veteran saloon car models, now in the market, the priority is to develop new two door sports models to replace the Bentley Continental and its variants. Codenamed "Bali", this scheme is advanced, but could still be significantly swayed by BMW's cash and expertise.

Rolls-Royce's second dream is to develop the Bentley Java, a sleek concept car unveiled to universal praise at the 1994 Geneva motor show. In spite of the plaudits, the project never took off for lack of cash and uncertainty at the Vickers parent company about the market potential.

The Java could be more than just one car. The overall scheme for a new "medium-sized Bentley", costing about £100,000, probably involves a saloon as well as the coupé.

That price would provide an almost seamless continuity from BMW's existing models. Its top-of-the-range 12-cylinder 750 model costs just over £75,000 in the UK, but could go higher with some extravagant options.

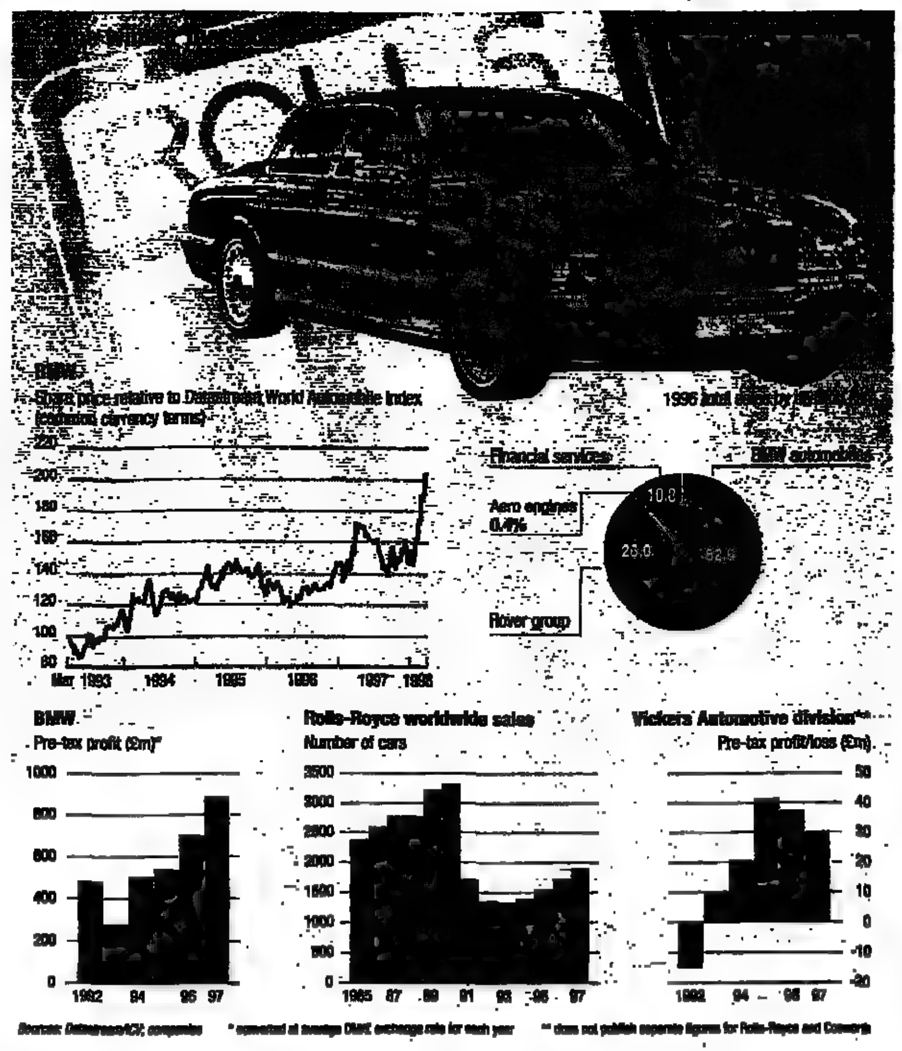
BMW has been this way before. After pipping Mercedes-Benz to the post in the negotiations to supply V8 and V12 engines for Rolls-Royce's new saloons in late 1994, the German company was also approached by Vickers to collaborate on developing the Java.

On the face of it, partnership appeared ideal – BMW was already thinking about replacing its attractive but slow-selling 8 Series coupé, and Vickers felt more comfortable in a risk-sharing venture. In the end, the project failed because the two partners disagreed about what the new car should be. While Vickers envisaged a smaller, slightly cheaper incarnation of Bentley's image of luxury sports motoring, BMW seemed to be after a Ferrari-basher.

In the three years that followed, BMW honed its plans in the form of the Z07, a retro-styled two seater said to offer exhilarating performance to match Italy's exotica. But even a decision to build the Z07 would not necessarily undermine plans to revive the Java.

The clean, modern looking Bentley would be a perfect foil for retro-styled Z07. And the saloon version would allow BMW to push its product range from the modest Mini made by its Rover subsidiary through its German products to the dizzy heights of Rolls-Royce's most expensive models.

BMW hopes to offer a range from the modest Mini made by its Rover subsidiary through its German products to the dizzy heights of Rolls-Royce's most expensive models



VICKERS HAS AMBITIONS TO EXPAND ITS DEFENCE SIDE BUT THIS WILL HAVE TO AWAIT DECISION ON MULTI-ROLE ARMOURED VEHICLE

Problem now is where to spend the cash

Sir Colin Chandler, chairman and chief executive of Vickers, was looking relaxed and happy yesterday after receiving a general thumbs-up from the City for the sale of Rolls-Royce Motor Cars for £340m, writes Roger Taylor.

However, analysts warned that the company, which has come in for criticism from investors over recent months, still needed to convince investors of its plans to reinvest the proceeds.

Vickers has promised to return part of the sale proceeds to shareholders, but has declined to say how much. The issue will depend on how much it wants to keep to build up its defence and marine propulsion units.

Vickers, which builds the Challenger tank, is known to have ambitions to expand its defence side after opening negotiations with GKN earlier this year to buy its armoured vehicles division.

However, any deal will probably have to await the decision on one of Europe's largest defence procurement projects - the multi-role armoured vehicle (MRAV). Vickers and GKN are in competing consortia with GKN favourite to win. Putting a value on the business before a decision has been made will not be easy.

Sir Colin said yesterday that he also planned to invest in the successful marine propulsion division. Analysts said that the other two divisions, Cosworth engines and turbine components, offered less scope for development.

The company has been under pressure from shareholders over the past two years, as its shares have dropped from a high of 293p in 1996. After worse than expected results in February, the shares dropped as low as 200p, leading to speculation that the company would be taken over and broken up.

However, optimism about the progress of the Rolls-Royce auction has helped lift the share price, although it closed yesterday down 4p at 296½p. Analysts said this was roughly in line with sum-of-the-parts valuations.

In its current form, Vickers now poses a quandary. Sir Colin argues that its various businesses are held together by common engineering skills and benefit from purchasing synergies. "We have considered a break-up but believe we can get better value managing the businesses ourselves."

Analysts are sceptical of this argument. But equally, it is difficult to see how the company could be improved from restructuring. Also, a demerger seems problematic, as the defence side would be too small to stand alone.

Instead, investors will have to wait to see what Vickers does with its cash.

THE BIDDING PROCESS

Angry losers left to lick their wounds

By Roger Taylor and Graham Bowley

There is anger and disappointment among the losing bidders for Rolls-Royce. Some feel they have been used as stalking horses by Vickers to drive up the price BMW had to pay.

They are unimpressed by the way the deal was tied up over the weekend, just days after the opening offers were submitted and before everyone had had time to consider upping their offers.

Volkswagen, the main challenger to BMW, yesterday refused to comment. But the consortium of Rolls-Royce enthusiasts that had put in an offer were scathing in their criticism of Vickers.

Sir Colin Chandler, Vickers chairman, insists there was a genuine auction and that every bidder was given full and fair consideration. But it is easy to understand why some have gone away with the feeling that the outcome was a foregone conclusion.

BMW started off with two big advantages. Firstly, it supplies the engines for the new model from Rolls-Royce Motor Cars. Secondly, Rolls-Royce, the aero-engine manufacturer, which has certain rights over the use of the Rolls-Royce name and which potentially could have thrown a spanner in the whole process, said from the outset that it favoured a sale to BMW, with which it has a joint venture.

Together, these gave BMW an apparently unassailable position. And this was precisely why Vickers had to set up the auction.

Sir Colin Chandler said: "The important point was that BMW did understand that there were other credible bidders."

When the process kicked off last year there was a flurry of interest from car companies eager to read the information memorandum. Most ruled themselves out leaving the three big German carmakers – Volkswagen, Daimler Benz and BMW – as the leading contenders.

Daimler Benz caused confusion by publicly ruling itself out of the auction while privately tracking the process. The mystery was solved when it emerged that they had been working on joint bid with Goldman Sachs the investment bank. Analysts suggested it was anxious not to be seen publicly to lose the bidding war and did not want to undermine confidence in its own programme to develop a luxury car.

BMW said throughout it was interested but maintained that it was not prepared to bid high. Rumours emanating from some parts of the company suggested it would not pay more than £250m.

Volkswagen was more upfront. It announced interest late last year, at a time when its shares were under pressure because of the Asian economic turmoil and a controversial plan to raise new capital.

In March, a high-profile visit to Rolls-Royce by Ferdinand Piëch, VW's chief executive and Gerhard Schröder, prime minister of Lower Saxony, VW's biggest shareholder, showed how serious they were and led the German press to suggest they had already bought the company.

Vickers were careful to add to the short-list alternatives to the German carmakers. Doughty Hanson, a venture capital group, was considered, as was a consortium of Rolls-Royce enthusiasts.

By the end of last week initial bids were in and it was clear to BMW that if they did not come up with a decent offer, Vickers had other options. It decided to strike fast.

Sir Colin readily admits that a sale to BMW was always going to be the most logical outcome. So when this weekend it upped its offer and gave Vickers a deadline for a decision, there was no point hanging around.

Ferdinand Piëch: has been said to have 'petrol in his blood'

VW boss had been on a roll

By Graham Bowley

Until losing out on Rolls-Royce, Ferdinand Piëch, the 60-year-old chairman of Volkswagen, was on a roll.

The prickly, no-nonsense chief of Europe's biggest carmaker, has overseen an impressive turnround since he took over in 1993.

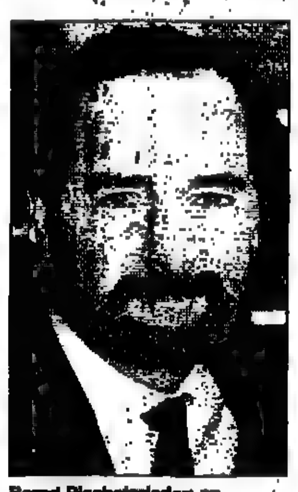
A scion of the Porsche family – his grandfather was Ferdinand Porsche who developed the VW Beetle car – Mr Piëch was born in Vienna and graduated in 1962 from the Swiss Technical University in Zürich.

In 1963 he joined Porsche in engine testing, but switched to Audi in 1972 helping develop the Audi Quattro. He was appointed Audi chief executive in 1988 and joined VW's management board in 1993.

Inheriting a lossmaking concern, he introduced more efficient Japanese-style working practices, ruthlessly cut costs and motivated the workforce.

A man with an almost unparalleled knowledge of the car industry – a German newspaper once said he had petrol in his blood – the group now turns out exciting, well engineered cars.

All four of the VW group's brands – VW, Audi, Skoda and Seat – are prospering.



Bernd Pischetsrieder: an enthusiast by inclination

Man with a driving ambition

By John Griffiths

No one can accuse Bernd Pischetsrieder, BMW chairman, of regarding Rolls-Royce Motor Cars as just a building block in BMW's construction of a global automotive business.

Mr Pischetsrieder, a 25-year veteran of the Bavarian carmaker, is an engineer by training and an enthusiast by inclination – one of his most prized possessions is a Rolls-Royce Phantom II more than 60 years old.

At 50, the urbane Mr Pischetsrieder projects an image of suave conservatism.

But looks deceive. Given half a chance, "taking the wheel" means rather more to him than steering boardroom policy.

During his long career at Munich more than one crunched car has testified to his enthusiasm – none more so than £630,000 worth of BMW-engined McLaren F1 "supercar" he took for a spin into a ditch three years ago.

Those fearing a more technological approach to future Rolls-Royces and Bentleys may take comfort from his assertion that enthusiasm and emotion will loom large. His enthusiasm has shown up also in a determination to regenerate the Mini.

Jürgen Schrempp: known as something of a maverick

Aggressive, successful manager

By Graham Bowley

The cigarette-smoking Jürgen Schrempp has held the top job in German industry since 1995. As chief executive of Daimler-Benz, he has won a reputation as Germany's most aggressive manager, and one of its most successful.

A burly, direct man, he has not shied away from radical action at Daimler. As chairman, he has axed jobs and sold lossmaking divisions.

Since beating his arch rival Helmut Werner, then head of Daimler's Mercedes car unit, to the top job at Daimler, Mr Schrempp has reorganised the company, bringing Mercedes more closely under his control.

He has made it more international, listing its shares in New York and opening it up to investors' scrutiny by adopting US accounting standards.

Born in Freiburg in south-western Germany in 1944, he started work as a motor mechanic at the local Mercedes branch.

He went back to university, gained a degree in engineering and returned to Daimler in 1967, working his way up the corporate ladder.

Mr Schrempp was never part of Germany's corporate elite and is known as something of a maverick.

DETERMINATION TO ENTER TOP CLASS

VW saw Rolls as best way to move up

By Graham Bowley

The plan for the People's Car to acquire what has been the Car of Kings – and sheikhs and pop stars – may have been doomed from the start.

However, Ferdinand Piëch, Volkswagen's fiery chief, was adamant last week that acquiring Rolls-Royce Motor Cars was the best way for Europe's biggest carmaker to move into the top end of the luxury car market.

Having successfully turned around VW and its other brands, Audi, Skoda and Seat, the ambitious Mr Piëch now wanted to move up. "It took DM1.5bn (£490m) and 15 years to get Audi where it is now. We think this can be done [with luxury cars via Rolls Royce] in a shorter amount of time but not with lower costs," he said.

Robert Büchelhofer, Piëch's lieutenant, added: "We believe that we will be able to make a lot more headway in the top segment by doing it this way." So yesterday's decision by Vickers is a blow to VW's aspirations.

But Mr Piëch was equally determined that VW would enter the top-class segment, even if the bid for Rolls-Royce was unsuccessful. "Independent from the Rolls-Royce bid, we might get two to three top of the range models," he said.

VW was saying nothing yesterday, but the assumption is that this strategy still holds.

One idea Mr Piëch raised was the resurrection of old, dormant brands as the basis for a novel luxury marque. VW officials were vague, but the possibilities could include Horch, the brand controlled by Audi, as well as an unspecified "Italian" marque.

The Rolls episode has at least cast in a better light VW's controversial and mismanaged capital increase launched last autumn, and initially worth DM6bn but later scaled back.

Investors were unhappy that VW had given little reason for wanting to raise so much money, and its share price came under intense pressure.

When it first revealed its interest in Rolls-Royce in November, sceptics interpreted this as an ex post attempt to appease shareholders. But its decision to take part in the auction may have improved the situation.

The Rolls episode has at least cast in a better light VW's controversial and mismanaged capital increase launched last autumn, and initially worth DM6bn but later scaled back

As for Daimler-Benz, the Stuttgart-based company insists the strategy for its Mercedes-Benz car division remains unchanged by BMW's victory.

Jürgen Schrempp, the chief executive, has said he wants instead to develop his own luxury car model to take on Rolls-Royce. He has resurrected an old Mercedes brand, the Maybach, and will decide whether or not to go ahead with full production within the next three months.

مكذا من الأصل

TELECOMS ANALYSTS REMAIN UPBEAT

Bezeq falls Shk223m into the red

By Judy Dempsey in Jerusalem

Bezeq, Israel's state-controlled telecommunications company, yesterday reported a net loss of Shk223m ($62m) for 1997 compared with a Shk712m profit in 1996.

The company blamed competition in international telephone calls, heavy restructuring costs and an investment write-off. Earnings per share fell from Shk0.97 to Shk0.30.

Revenues in international calls fell from Shk2.26bn in 1996 to Shk1.47bn last year. Total revenues, however, slipped only 1.6 per cent, from Shk8.86bn to Shk8.72bn as Bezeq continued to enjoy market dominance in the cellular phone sector. Revenues in this sector rose from Shk1.46bn to Shk2.18bn.

Profits were also hit by a one-off Shk1bn provision for restructuring and early retirement of 20 per cent of its 9,000 employees. It wrote off Shk79m on an investment in an Indian cellular project.

In spite of heavy losses, analysts believe Bezeq will return to profitability in the long term, provided it continues restructuring.

"It is still a cash cow," said Ilan Doron, analyst at Solid-ISG Capital. Net cash flow generated by operating activities, for example, rose from Shk2.47bn to Shk3.1bn.

The fall in profits has encouraged management to speed up Bezeq's privatisation. The Israeli telecoms market, one of the last monopolies, is due to be opened up in 1999.

Izzy Tapoohi, chairman, yesterday said the company had to become more efficient as the sector opened to competition.

He called on the government to reduce its holding to below 50 per cent "as an essential requirement for Bezeq's operations in a competitive market".

The government has 54 per cent of Bezeq, and Cable and Wireless, the UK telecoms company, holds 10.2 per cent with an option to lift its stake to 20 per cent. Merrill Lynch, the US investment bank, holds 12.5 per cent with the right to sell back 10 per cent of those shares if it cannot place them on the market.

The remainder are held by the public or institutional investors.

Koor net hit by telecoms revamp

By Judy Dempsey in Jerusalem

Koor Industries, Israel's largest industrial holding company, suffered a 23.4 per cent fall in net income for 1997 following a shake-up in the telecommunications sector and decline in the construction industry. In the fourth quarter, net income fell more than 85 per cent.

The poor results were announced just weeks after Claridge Israel, owned by Charles Bronfman of Canada, appointed Jonathan Kolber as chief executive, replacing Benjamin Gaon. Mr Bronfman took control of Koor, through Claridge Israel, last year. Mr Kolber has made clear he will try to boost exports and focus more on telecoms, electronics and chemicals, hiving off subsidiaries not complementing the core divisions.

Net income declined to $138m, from $177.8m in 1996, with earnings per share falling to $1.80 from $2.35. Sales edged 2.6 per cent higher, from $3.46bn to $3.55bn.

This was partly due to lower sales by subsidiaries Telrad and Tadiran Telecommunications to Bezeq, the state-controlled telecommunications company. The units' sales to Bezeq fell 48 per cent, from Shk1.5bn to Shk744.2m ($207m).

The slump in Israel's construction industry also affected Koor's net income, with its construction division reporting a 15.3 per cent decline in sales to Shk1.78bn. Building starts in the sector fell 31 per cent during the last quarter compared with the same quarter in 1996.

The weakness in the domestic market was offset by an increase in exports, which rose from 35 per cent of total revenues to 42 per cent in 1997.

Growth was driven by Makhteshim-Agan, the chemical division, which is expanding into Latin America and Spain. The division's sales jumped 21 per cent, from Shk1.9bn to Shk2.7bn.

Hapoalim shows record income

By Avi Machlis in Tel Aviv

Bank Hapoalim, Israel's biggest bank, said yesterday net income climbed nearly 21 per cent to a record level last year, because of a sharp drop in doubtful debt provisions and an increase in financing and operating income.

Net income increased from $245m in 1996 to $296m last year. Profits from financing activities, before doubtful debt provisions, climbed nearly 2 per cent from $1.03bn to $1.05bn over the same period.

Doubtful debt provisions dropped 36 per cent from $320m to $204m. Operating and other income rose 5 per cent from $691m in 1996 to $723m in 1997, while return on equity advanced from 11 per cent in 1996 to 12.5 per cent in 1997. Hapoalim said banking income increased despite a slowdown in the Israeli economy last year.

Amiram Sivan, chief executive, said doubtful debt provisions fell as a result of a more cautious credit policy.

He added that Hapoalim was capable of competing with foreign banks, which are expected to increase activity in Israel as a result of the foreign exchange liberalisation planned for this May.

Last year, the Israeli government sold a 43 per cent stake in Bank Hapoalim to a group of investors headed by Ted Arison, the US-Israeli billionaire.

The state still holds a 29 per cent stake, while another 28 per cent is freely floated on the Tel Aviv Stock Exchange.

Pro Sieben prepares for a channel hop

German TV chief Georg Kofler is keen on acquisition, writes **Frederick Stüdemann**

Georg Kofler is enjoying his role as pioneer. The chairman of Pro Sieben, the German media group floated on the Frankfurt stock market last year, credits his company with having brought more commercial focus to Europe's biggest television industry.

"Going to the market was not just an education for us, but also for all the other television operators. Everyone now thinks more about returns."

The result, Mr Kofler says, will be a speeding up of consolidation within the German commercial television market, as unprofitable networks are taken over or closed down. The "unprofitable" label now applies to most of the commercial television sector – out of 15 national channels, only two are profitable.

Pro Sieben's flagship channel, Pro 7, is one of the profitable networks. The other is RTL, a subsidiary of CLT-Ufa, Europe's biggest broadcasting company.

In 1997, pre-tax earnings at Pro 7 rose 49 per cent to DM316m ($173m) on sales of DM1.6bn. Pre-tax profits for the whole Pro Sieben group, which alongside Pro 7 includes a small, loss-making channel, Kabel 1, and multimedia and merchandising businesses, increased 43 per cent to DM254m.

Mr Kofler makes no secret of his ambition to use his position of strength to acquire another channel, but he is coy about naming a candidate. He denies rumours that Pro Sieben would buy SAT-1, the second biggest network.

The two companies are linked. Thomas Kirch, son of the founder and owner of the film distribution and broadcasting group Kirch, holds the majority of Pro Sieben's voting stock, while his father's company is the largest shareholder in SAT 1. Mr Kofler also refuses to comment on whether he is sizing up N-Tv, a new channel in which Time Warner of the US has a stake.

Mr Kofler believes tensions between shareholders at some networks will soon lead to a reorganisation of ownership structures. CLT-Ufa, for instance, is keen to create a "broadcasting family" through the integration of the small Super RTL and RTL 2 networks into the main RTL group.

While CLT-Ufa wholly owns RTL, it shares the smaller channels with other companies including Disney of the US and Bauer, the German publisher.

A broadcasting family, similar to Pro Sieben's two-channel strategy, could save costs as programming is planned across the family, thereby making better use of the back-list. In addition advertisers could be offered packages spanning several networks.

Although negotiations have so far been inconclusive, because Disney and other shareholders are apparently unhappy with the terms offered by CLT-Ufa, industry observers still assume a deal will be made.

At SAT-1, one shareholder, the publishing group Holtzbrinck, wants to sell its 15 per cent stake. Its preferred buyer is Kirch, which already owns 43 per cent of SAT 1, but this may be blocked by the cartel office. It has also been opposed by Axel Springer, the newspaper group, which owns 40 per cent of the television channel. "We are living in a period of radical change," says Mr Kofler, "but I expect that by the end of this year there will be greater clarity in the market."

Another significant change will be the reduction of programme acquisition costs. "The German networks are now more rational in their purchasing. The situation in the past, when silly prices were paid in Hollywood, was partly due to all these new networks starting up and needing content to grab market share, and partly due to the rivalry between RTL and SAT 1," says Mr Kofler of past bidding wars between CLT-Ufa and Kirch.

Content prices are highly significant for Pro Sieben because they account for the majority of its costs. The company has a secure supply of programming, partly because of its links with Kirch, Europe's biggest film and television distributor.

But with many existing contracts due to expire in the next two years, Pro Sieben will have to negotiate new deals, and analysts think this could be a cause for concern, especially as growth in advertising spending is forecast to slow down following years of double-digit increases.

Georg Kofler: coy on naming acquisition candidate Reuters

NEWS DIGEST

TELEVISION

Delloye named as CME chief executive

Michel Delloye, who resigned two years ago as chief executive of CLT, the international media group, has been appointed chief executive of Central European Media Enterprises (CME), the leading private commercial television group in central and east Europe. The appointment marks the return of Mr Delloye to the senior echelons of the European television industry after his departure from CLT during its merger with Ufa, the television division of Germany's Bertelsmann. He resigned in mid-1996 in protest at the proposed CLT-Ufa management structure.

Mr Delloye replaces Leonard Fertig, who has led the rapid development of CME into the biggest private commercial television broadcaster in central and east Europe.

CME is listed on Nasdaq in New York and is controlled by Ronald Lauder, one of the heirs to the Estée Lauder cosmetics fortune. Despite earning strong profits in the Czech Republic from TV Nova, the overall CME group continues to run up heavy losses, with several of its stations still at the early stage of development. **Kevin Done**

BOTTLING

Pripps in deal with PepsiCo

Pripps Ringnes, the beverages subsidiary of Orkla, the Norwegian conglomerate, yesterday said it had signed a production and distribution deal with PepsiCo of the US.

The 20-year bottling and licensing agreement, covering most of Norway, follows a similar deal with PepsiCo last year covering Sweden. It comes 18 months after the collapse of a long-standing collaboration between Pripps Ringnes and Coca-Cola.

The Norwegian company said it would take responsibility for about 70 per cent of PepsiCo's annual sales in Norway, adding that it expected to take outright control as agreements with other bottlers expired. Orkla's most commonly traded A shares rose NKr23 to NKr802, although no financial details were disclosed. **Tim Burt, Stockholm**

GOLD MINING

Anglogold share ratios revised

Anglogold, the new holding company for Anglo American's gold interests and the world's biggest gold mining group, has announced an increase in the number of its shares to be received by shareholders of three companies – Eastvaal, Elandsrand and Western Deep Levels – when they are incorporated into Anglogold.

The upward revisions follow a review by independent financial advisers of the preliminary ratios announced last November. Eastvaal shareholders will now receive 2.3 Anglogold shares per 100 shares, instead of 2.13. For Elandsrand the figure rises to 8.5 from 6.56, and for Western Deeps to 53 from 47.35. Ratios for other mines are unchanged.

Anglogold began trading in Johannesburg yesterday under its own name, having used Vaal Reefs as the listed company to bring together Anglo American's gold mines into a more focused group. The shares rose 5 per cent from R201 to R214 yesterday, mainly because of a weaker rand and a steady gold price.

Anglogold has emphasised it will be managed independently of Anglo American, which will own just over half of the shares. **Victor Mallet, Johannesburg**

BANKING

Commerzbank posts 10% rise

Commerzbank, the German bank, said it raised net profits last year by 10 per cent to DM1.34bn ($735m). This is slightly less than the preliminary figure of DM1.35bn announced in early February, when the bank also said it was making nearly DM1bn of provisions to cover Asian risks. Commerzbank also confirmed it intended to lift the dividend pay-out from DM1.35 to DM1.50 a share. The bank will present its full 1997 results tomorrow. **Andrew Fisher, Frankfurt**

TELECOMMUNICATIONS

RWE eyes eastern Europe

RWE, the Essen-based electricity and industrial conglomerate, said yesterday it was planning to expand its telecommunications activities into eastern Europe, where it has significant energy interests. The group said it was looking for partners to join it in a fixed network telecoms venture in Hungary. RWE also has a 40 per cent share in Aliatel, a joint telecoms venture in the Czech Republic. The group said it was looking initially to build data and corporate networks, but wanted eventually to take advantage of telecoms liberalisation in the two countries. **Ralph Atkins, Bonn**

AIRLINES SIX-MEMBER QUALIFLYER GROUP WILL OPERATE ABOUT 15,000 FLIGHTS A WEEK TO 294 DESTINATIONS

Swissair in new European air alliance

By William Hall in Zurich

Swissair, Switzerland's flagship airline, has teamed up with Belgium's Sabena, Austrian Airlines, TAP Air Portugal, Turkish Airlines and AOM of France, to form a new European alliance that will carry almost 50m passengers a year and generate revenues of $11bn.

Philippe Bruggisser, chief executive of SAirGroup, Swissair's parent, announced the formation of the alliance, to be known as the Qualiflyer Group, at his annual results press conference yesterday.

SAirGroup announced its return to profit at the end of February, but yesterday detailed figures revealed its core airline business, which accounts for more than half of group revenues, made an operating profit of SFr199m ($133m) – its first profit since 1991.

Swissair carried more than twice as many passengers as the entire Swiss population in 1997 and sees strategic alliances as the only way to expand outside its home market.

Qualiflyer Group will operate more than 15,000 flights a week to 294 destinations.

Mr Bruggisser said that when Swissair started its Atlantic Excellence alliance 10 years ago with Delta Air Lines of the US, more than half of transatlantic flights were by non-alliance airlines. Today that proportion is down to 30 per cent.

Swissair said each airline would retain its own identity, but the new alliance would involve synergies in areas such as cargo, in-flight catering, information technology, aircraft maintenance and duty free sales.

The Qualiflyer group would seek other European partners, but would not include Delta because that would require US antitrust immunity.

The recovery in SAir-Group's airline business contrasted with a disappointing performance by SAirRelations, the group's non-airline business which has until now been its biggest profit contributor.

SAirRelations revenues grew 40 per cent to SFr3.7bn but earnings before interest and tax rose only SFr6m to SFr181m. The main problem area was at Nuance Global Traders, the world's second biggest duty free retailer.

The 1996 acquisition of Allders, the UK duty free chain, has proved less successful than planned and the south-east Asian crisis has led to a sharp drop in business in Asia and Australia.

Mr Bruggisser said the airline industry was at the top of the cycle and his group needed to prepare for the next less positive turn in the cycle.

SAirRelations aims to raise return on capital employed from 13.4 per cent to 15 per cent.

Midi Television wins South Africa licence

By Victor Mallet in Johannesburg

Midi Television, a consortium 80 per cent owned by black South African investors and 20 per cent by Time Warner of the US, has won an eight-year licence to run South Africa's first privately owned terrestrial television channel.

The Independent Broadcasting Authority announced yesterday that Midi had defeated its six rival bidders after nearly two months of public hearings. "The new service is bound to have a profound impact on audiences, advertisers and competitors," said Felleng Sekha of the IBA.

Midi had been the favourite to win because of its commitment to "black empowerment" and to high-quality local programming, as well as the experience of its managers. The three existing terrestrial channels are owned by the state-controlled South African Broadcasting Corporation. Midi will also be competing with M-Net, the pay-TV company.

"We put up a believable business plan," said Jonathan Procter, managing director. "We didn't try to impress the IBA by promising thousands of hours of local programming of low quality."

Midi is scheduled to launch its channel, called e.tv, on October 1, and says its transmissions will reach 75 per cent of South Africans within two years. It expects to invest R450m ($90.4m).

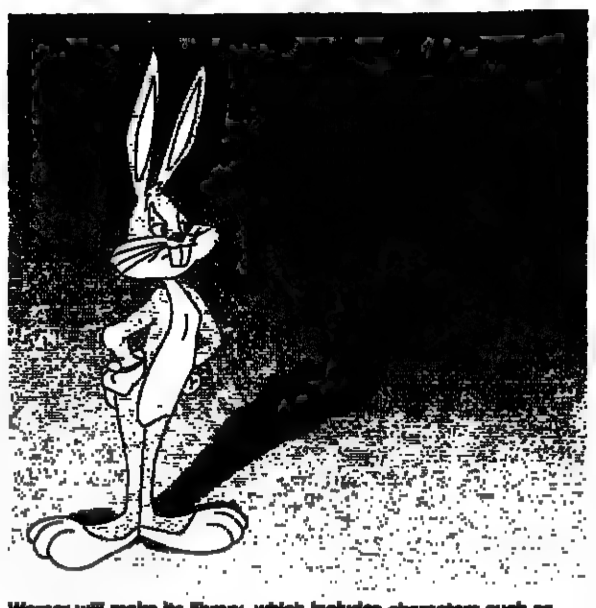
Time Warner, whose 20 per cent shareholding is the maximum allowed under South Africa's rules, will make available its library to the new channel, distribute South African productions overseas, and help train Midi staff. Its CNN news channel is likely to assist in establishing Midi's news programmes.

"We will make sure that they transfer their skills to our people in South Africa and empower our people," said Nomazizi Mtshotshisa, chairwoman of the consortium.

"Our news will also reflect the reality that South Africa is a part of Africa, not a colony of the northern hemisphere."

Most of the defeated bidders fielded a similar combination of black investors and foreign partners. Among the losers were companies from the UK, France, Sweden, Australia and Canada.

Midi's South African owners include Hosken Consolidated Investments, controlled by trade unions in the mining and textile industries; Vula Communications, which brings together black businesses, other trade unions and community organisations; and a range of smaller investors representing the disabled, young people, and other interests.



Warner will make its library, which includes characters such as Bugs Bunny, available to the new channel

Aker poised to float 10 shipyards

By Tim Burt in Stockholm

Aker RGI, the Norwegian industrial holding company, yesterday announced the partial demerger of its shipbuilding interests ahead of a possible flotation of 10 yards in Germany, Finland and Norway.

The company said it was setting up a new shipyard group, to be called Aker Yards, in conjunction with Aker Maritime, its 73 per cent-owned offshore engineering business.

Aker Yards will inherit an order book for 45 vessels, worth NKr14bn ($1.9bn), and a combined workforce of 4,000.

Otto Soberg, who was yesterday named chief executive of the new group, said it would review all yards to maximise cost synergies.

The study is expected to concentrate on the business's smaller Norwegian yards rather than those in Finland and Germany.

The demerger and listing plan follows Aker's acquisition earlier this year of Meeres Technik Wismar, east Germany's biggest shipyard, for DM85m ($46.5m).

Last year, the Norwegian group underlined its ambitions in shipbuilding by paying FM95m ($17.1m) for a controlling stake in Finnyards, the last of Finland's big domestically owned shipbuilders.

Mr Soberg said the demerged group would concentrate on "value-added" high-specification ships such as high-speed ferries and icebreakers. He added that all 10 yards were profitable, but gave no details. Annual revenues are estimated at NKr8bn.

Of the yards, seven are dedicated to specialist shipbuilding, while the remainder manufacture sections for offshore platforms and marine equipment.

"The goal is to develop Aker Yards into a leading international shipbuilding group," said Mr Soberg. "By better co-ordination of production we can achieve considerable economies of scale."

Discrepancy found at Santander's Brazil buy

By David White in Madrid and Geoff Dyer in São Paulo

An alleged embezzlement at a Brazilian bank being bought by the Santander group of Spain has cost the previous owners $242m, it emerged yesterday.

The alleged fraud was uncovered at the Cayman Islands offshoot of Banco Noroeste by Santander's internal auditors, working with Brazilian auditors, and is understood to implicate one or more managers of a private banking fund.

The question of any possible criminal charges is believed to be still under consideration. The case is understood to have come to light about five weeks ago.

Santander would not comment on the details of the fraud, except to say that $242m was being set aside by the former owners as an extra provision as a result of "due diligence" procedures.

These were carried out following an initial agreement to take control of the São Paulo-based bank in August last year.

The cost of covering the extra charge amounts to almost half the $500m agreed as payment by another Santander affiliate for a controlling stake of just over 50 per cent in Banco Noroeste.

In addition, it is understood that the former shareholders agreed to put up a further $120m temporary provision for a period of a year, in case any additional discrepancies should emerge at the bank.

Santander announced yesterday that the acquisition had been completed with authorisation from the Brazilian central bank.

The purchase was made through Banco Geral do Comércio, a regional Brazilian bank in which Santander earlier bought a controlling stake.

The holding in Banco Noroeste was bought from the Simonsen and Cochrane families, who founded the bank about 70 years ago.

The embezzlement case comes as an embarrassment for Santander, in a deal which was billed as completing its array of subsidiary banks in Latin America, where it has invested some $3bn since 1995.

However, it emphasised yesterday that Banco Noroeste now had "a clean bill of health from the Brazilian authorities".

It said the discrepancy had been spotted in time, and added: "As a result, there is no additional cost to Santander."

The Spanish parent group has spent $329m establishing its foothold in Brazil. Banco Geral do Comércio and Banco Noroeste are due to be merged.

● Endesa, the Spanish power group due to undergo further privatisation before the summer, reported flat earnings last year due to lowered tariffs and one-off depreciation costs, writes **Tom Burns in Madrid**.

The group lifted its 1997 attributable net profit by 1 per cent to Pta166.7bn ($1.1bn) after putting aside Pta273.7bn in provisions to meet new accounting rules imposed on domestic power groups as part of the deregulation of the electricity sector.

Groups eye euro printing market

By Peter Marsh

De La Rue of the UK and Germany-based Giesecke & Devrient, the world's biggest private-sector banknote suppliers, are lobbying to print a bigger share of Europe's new euro notes.

At present about 90 per cent of banknotes in the European Union are printed by the state, effectively freezing the two private-sector companies out of a potentially lucrative market.

De La Rue and G&D say that, with flexible working methods and new technologies, they could be more efficient than many of the 13 state-controlled printers lined up to print the lion's share of the new euro notes. They argue they could save European taxpayers tens of millions of pounds.

The two companies have been putting their views to the Frankfurt-based European Monetary Institute, the forerunner of the new European Central Bank, which will supervise monetary policy and banknote printing when economic and monetary union starts in January.

Although no decisions on printing euro notes will be taken until after the ECB is set up later this year, observers think it unlikely that the bank will alter existing arrangements in which banknote printing is left mainly to the public sector.

Both De La Rue and G&D believe they would be better placed than many state-controlled printing organisations – which are used to producing money only for a specific country – to exploit economies of scale to make euro banknotes for the whole of Europe.

Manfred Beck, head of the banknote division at G&D, said: "I think we [the private sector] could do the printing better and cheaper than leaving it all to the public sector."

Forecasts of savings are difficult until the final design and security aspects of the new notes are decided later this year, but the companies aim to cut the estimated £200m-a-year ($337m) euro-printing costs after 2002 by 5-10 per cent.

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HONG KONG CRISIS KNOCKS US$438.6M OFF CONGLOMERATE'S ASSETS

Asian turmoil takes toll on First Pacific

By Louise Lucas in Hong Kong

The Asian currency crisis has sliced US$438.6m off net assets at First Pacific, one of the region's biggest conglomerates.

The company, which focuses on Hong Kong and China as well as three of the countries affected by sharp currency devaluations – Indonesia, Thailand and the Philippines – said it had taken "full and complete provisions against foreign currency movements" on both its profit and loss statement and balance sheet.

Foreign exchange and other losses related to the regional economic turmoil offset many of the gains from heavy asset disposals, and the group reported a small rise in profits, from $204.2m to $212m last year.

Stripping out exceptionals, net profits fell 17.6 per cent, from $201.7m to $166.2m. First Pacific gained $248.8m from the disposal and dilution of shareholdings, but this was largely negated by exceptional losses, including rationalisation and telecoms start-up costs in Indonesia and India.

First Pacific's shares were among Hong Kong's poorest performers last year, but Manual Pangilinan, managing director, said the company had eliminated net debt and was poised to capitalise on the crisis.

"We have responded early and resolutely to the region's economic crisis. As a result, we now have one of the strongest balance sheets in the region, no net debt and substantial cash to invest in the Asian region."

However, First Pacific's disposal of cash-generating businesses – such as the sale earlier this month of its 37.4 per cent stake in Hagemeyer, the Netherlands-based trading group – meant recurrent earnings this year are set to be lower than last year.

First Pacific's exposure to the worst-hit countries in the region caused it to take one of the biggest set of provisions among the Hong Kong companies now reporting annual earnings.

About two-thirds of the group's its currency losses related to the Philippines, where the ability to hedge the peso was minimal.

Mr Pangilinan said the group would take a slow and disciplined approach to investment.

The first priority would be to raise equity injections – mainly through rights issues – at a number of subsidiaries, which would help them reduce gearing.

Earnings per share for the year rose 2.9 per cent, from 8.73 US cents to 8.98 cents. Excluding exceptionals, earnings per share fell 18.3 per cent, from 8.62 cents to 7.04 cents.

The full-year dividend has been cut 19.2 per cent, from 2.71 cents to 2.19 cents.

Napocor looks for $95m in rate rise

By Justin Marozzi in Manila

National Power Corporation, the Philippines' largest state-owned utility, is planning to raise electricity rates in a move that could raise $95m and prevent the power company from plunging into the red.

Napocor said it wanted to compensate for revenue losses caused by the extra costs of purchasing power from independent power producers in build-operate-transfer contracts dating back to the early 1990s.

It said it had not yet passed on to consumers the advance payments it made in amortising these contracts with the producers.

The payments were made in dollars and were based on an exchange rate of 26 pesos to the dollar. Since the Asian currency crisis began last July, the peso sank to a low of 46.55 pesos to the dollar but has stabilised recently at about 38.

Guido Delgado, Napocor president, said he was awaiting government approval for the rate increase. Without the rise, expected to be about 9.4 centavos per kilo-watt-hour, Napocor would probably lose 4.24bn pesos ($113m) this year after an estimated 10.7bn pesos debt-servicing charge, he said.

If approved, the rise would be unlikely to be enacted before national elections. Analysts said it could meet with public opposition, coming as fuel oil and diesel prices are on the decline.

Hopes of an early privatisation of Napocor, the government's largest asset, under a bill pending since 1994 have receded in the run-up to national elections in May.

Freddie Webb, head of the Senate's energy committee, said at the weekend that the much-needed restructuring of the power industry should wait until a new administration was elected.

The World Bank recently urged the government to press ahead with restructuring as Napocor was in a financially precarious position.

The utility is planning to install new meters which it predicts will bring in extra revenues of 400m pesos, in addition to 400m pesos from its recently introduced one-day power sales contracts.

Last week Napocor said it would begin negotiations with an Argentine group on a $450m contract to rehabilitate a hydroelectric power plant. The contract – for the Caliraya-Botocan-Kalayaan hydroelectric facility in Laguna, outside Manila – has been dogged by legal problems.

The group last month blamed a 45 per cent drop in annual net income, from 5.5bn pesos to 3.05bn pesos, on the peso's fall and higher interest rates.

Hopewell in HK$110m provision for Peregrine

By Louise Lucas

Hopewell Holdings, the Hong Kong property and infrastructure group, has made provisions of HK$110m (US$14.2m) against its holding in Peregrine, the collapsed investment bank – only marginally less than its operating profit of HK$117.8m for the six months to December 31.

The group, controlled by Sir Gordon Wu, was one of the founding investors in Peregrine, which collapsed earlier this year because of heavy exposure to troubled Asian economies. Hopewell invested HK$153m in Peregrine, some of which has been recouped through dividends.

Other early backers of Peregrine included Li Ka-shing, whose flagship companies Cheung Kong and Hutchison also made provisions against listed securities, and Citic Pacific, the Hong Kong arm of Beijing's investment vehicle.

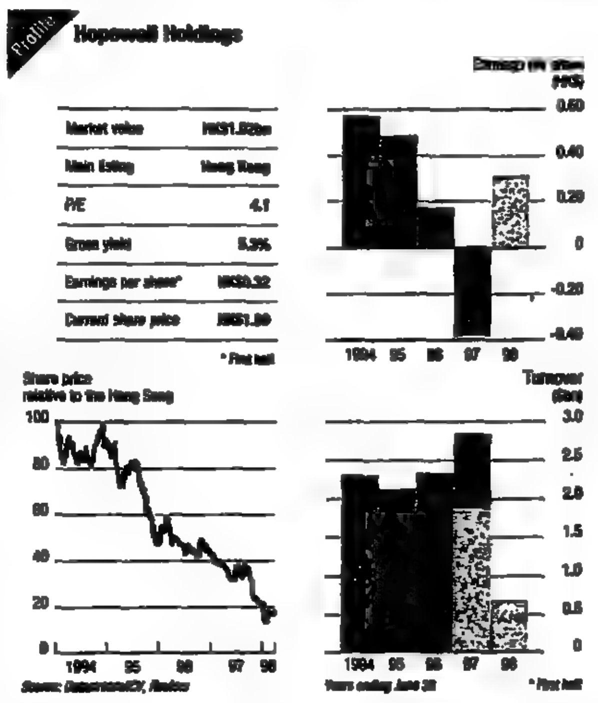
Hopewell – which has suffered a difficult year as a result of the Asian financial crisis – took further provisions against the Bangkok road and rail system, a contract which the Thai government cancelled at the end of last year.

The group is seeking compensation for the lost contract. In addition to a HK$5bn provision in the previous year, the group has made further provisions of HK$613m, half of which will be used for legal and professional costs in its claim against the Thai government.

However, exceptional gains helped attributable profits more than double, from HK$502m in the final six months of 1996 to HK$1.4bn in the same period last year. The group gained HK$2bn from the sale of its remaining 20 per cent stake in Consolidated Electric Power Asia, the independent power producer sold to Southern Company of the US.

Proceeds of the Cepa sale were used to pay down corporate debt. The net-debt-to-equity now stands at 4 per cent, while that for net debt to total capital is 32 per cent.

Earnings per share at Hopewell Holdings almost trebled, from 11.5 HK cents to 31.9 cents, but the dividend has been slashed from six cents to one cent.



Profits surge at Bata India

Bata India, the country's largest manufacturer of shoes, expects further growth this year after lifting 1997 net profits by 301 per cent to Rs166.4m ($4.21m), writes Kunal Bose in Calcutta.

The increase was in line with analysts' forecasts.

"The sharp increase in profits signals the group's return to health," said one analyst.

"Bata initiated a restructuring programme after it made a record loss of Rs400m in 1995. The turnround owes much to the financial and management input provided by Bata International Canada."

Revenues were up 13 per cent to Rs6.724bn, in spite of a fire at the group's biggest factory, near Calcutta, which hit production in the first half.

Interest free loans from Bata International and a successful rights issue helped reduce interest costs from Rs193m to Rs144.3m.

"Bata's decision to move out of the upper end of the Indian shoe market and produce shoes for the middle class has been its winning strategy," the analyst added.

"There was significant improvement in capacity utilisation and the operating margin was up one percentage point to 6 per cent."

Market attention has increasingly focused on Bata, as brokers expect the group to turn in a long run of good results.

Shares in Bata have climbed from Rs61 to Rs163.50 in a year.

NEWS DIGEST

CONSTRUCTION

Fujita shares slide on news of restructuring

Fujita, the troubled Tokyo-based construction group, yesterday unveiled a restructuring plan as the shares tumbled more than 11 per cent in heavy trading. The shares, which were as high as Y500 two years ago, have since dropped more than 75 per cent to Y121. Fujita, which has extensive holdings in the troubled property market, said it planned to cut staff from 5,480 to 4,500 by March 2000. A previously announced plan aimed to cut employees to 4,900. In addition, the group will reduce the number of managers by 40 per cent to 650. No timescale was given.
Paul Abrahams, Tokyo

HONG KONG

New World chief cautious

Henry Cheng, managing director of Hong Kong's New World Development, the Hong Kong-based property developer, yesterday said it was difficult to predict second-half earnings amid the economic downturn. "After the financial turmoil, there was a lot of deterioration in the economy compared with the same period in 1996. So I'm happy that at least we've maintained the profit," he said.

Property sales contributed HK$1.92bn to the company's interim net profit of HK$2.2bn (US$284m). Last year's net profit was HK$2.19bn. The hotels division saw a decrease of 53.6 per cent to HK$305.7m following a slowdown in tourist arrivals, while losses from telecommunications investments deepened from HK$117.3m to HK$275m. AFX-Asia, Hong Kong

BREWING

Asahi, Miller in US joint venture

Asahi Breweries, the rapidly expanding Japanese brewer, yesterday announced it was setting up a North American joint venture with Miller Brewing, a subsidiary of Philip Morris of the US.

The US company will own 2.5 per cent of the venture with the remainder held by the Tokyo-based group. In addition, Japan's second biggest brewer plans to invest C$5m (US$3.5m) to increase production of its Ashai Super Dry brand at Canada's Molson Breweries. The company's intention is to treble North American sales from 770,000 cases last year to 3m cases by 2000. Paul Abrahams

BEVERAGES EXPANSION IN EMERGING MARKETS SEEN AS DRIVING GROWTH

Forecast of volume rise lifts Coca-Cola

By Tracy Corrigan in New York

Coca-Cola shares gained 2 per cent early yesterday after the company said yesterday it expected first-quarter volume to rise by between 13 per cent and 14 per cent, boosting hopes of a strong first-quarter earnings report, due in two weeks.

The increase in unit cases sold – a standard industry measure – is projected to be between 9 per cent and 10 per cent, after stripping out the benefit of extra shipping days due to the way the calendar falls in the first quarter, compared with 9 per cent in the first quarter a year ago, the company said.

"Coke's global business is bubbling over as a result of strategic investments during economic turmoil," said Michael Branca, beverages analyst at Lehman Brothers. "Coke's prospects in 1998 are exceptionally strong."

The latest figures suggest that emerging-market expansion is continuing to drive growth. Unit case volume is expected to rise by between 18 per cent and 19 per cent in Latin America, and by 17 per cent to 18 per cent in the Middle and Far East. In greater Europe, unit case volume growth is projected at between 16 per cent and 17 per cent, but the company is expecting only 5 per cent volume growth in North America.

Roy Burry, an analyst at CIBC Oppenheimer, said the underlying growth of the business was "positive across the board".

However, although volume growth appears strong, analysts warned the company's earnings could be hit by foreign exchange exposure, as a result of the strength of the US dollar.

Mr Branca said recent investments in Asia would pay off. "During economic crisis, good and bad companies reduce their investment, whereas truly great companies dramatically step up their spending on both infrastructure and marketing."

He said Coca-Cola's South Korean bottling acquisition in the fourth quarter of 1997 was comparable with investments in Mexico following the country's peso devaluation in December 1994.

Coca-Cola said it was too early for investments made in the fourth quarter of last year to have an impact.

Coca-Cola shares were $1⅝ higher at mid-session in New York, at $76⅝.

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WIC pops poison pill to ward off bid

By Scott Morrison in Toronto

Western International Communications, the Canadian broadcaster, has swallowed a "poison pill" to ward off an unsolicited C$650m (US$459.5m) takeover bid by CanWest Global Communications.

While not rejecting the bid, WIC said it needed more time to review the offer and consider alternatives.

Observers said there were few alternatives open to WIC due to the unconditional structure of CanWest's offer. Only Shaw Communications, the Alberta cable and radio broadcaster that owns 49.9 per cent of WIC's voting shares, is considered to have the means and interest to compete against CanWest's offer.

Analysts, however, said Shaw and CanWest were more likely to negotiate a new ownership structure than risk a prolonged takeover battle that would spill into the courts.

CanWest surprised industry observers last week by offering C$39 a share for the 85 per cent of WIC stock it did not already own.

WIC's poison pill, which will expire after 120 days, applies to non-voting shares and the limited number of voting shares. CanWest's offer was set to expire after three weeks.

Canadian broadcasters have been jockeying to control an ever larger segment of the country's airwaves. Once limited to regional concessions, broadcasters such as WIC, CanWest and Baton Broadcasting have encroached on each others' turf in a bid for national market share.

WIC would provide CanWest with nine additional television stations and a dozen radio broadcasters across the country.

Turning its back on the front page

By Richard Waters in New York

After 75 years, the world's biggest-selling magazine is turning its back on a proven formula. From May, the contents of Reader's Digest will go inside, giving way to a cover dominated by a single photograph.

While it is no longer the main engine of their company's profits, executives hope that the little magazine familiar to doctors' patients around the world will help to breathe new life into a sagging publishing empire.

It was in 1923 – a year and a half after its launch – that Reader's Digest first decided to display its contents on the cover. It never looked back: with global sales of 28m, the magazine that discovered humour in uniform and taught its readers to increase their word power has become an icon.

And while sales in the US, at 15m, have flagged, the rest of the world has made up the slack: circulation of a Russian edition, launched seven years ago, is about to top 1m, while 700,000 Brazilians are likely to be readers by the end of this year.

The time has come, though, for changes. Readers are not getting any younger – 47 is the average age – and the magazine is competing for a younger generation with the television and the internet, said Christopher Willcox, editor-in-chief.

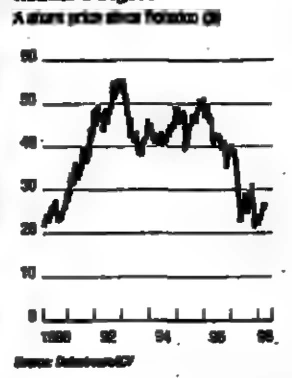
The company's main business – using its massive database to sell products such as books and music by direct mail – has slipped and its shares have fallen from more than $50 two years ago to less than $27.

The magazine itself, which last year supplied one-quarter of total revenues, has also suffered an erosion of its profits, despite three years of record advertising revenues. Last year it reported operating profits of $42.7m on revenues of $729m.

While the look is finally changing with the times, the values are not. "It's about celebrating the good guys," says Mr Willcox of his magazine, "the people who are building better communities and better families."

New look: prompted by ageing readership and falling profits

Reader's Digest



ABI set to miss deadline in bid for Metromail

By Peggy Hollinger

The stage was set for a further twist last night in the acrimonious bid battle between Great Universal Stores of the UK and American Business Information of Omaha for the US database marketing group, Metromail.

ABI said yesterday it would not be able to meet its noon deadline to supply documentation on its revised offer. The deadline was imposed by Metromail at the weekend, when ABI raised its $33-a-share bid to $37.48 in cash and equity.

However, insiders said they expected a further announcement late last night, implying that ABI's statement did not mean it had withdrawn completely.

GUS said Metromail had agreed to make a final decision on the competing bids by 8pm Chicago time. The company said it was standing by its $34.50-a-share offer, raised on Friday from $31.50. GUS said it had received government clearance for the bid, which would combine its US database marketing group, Direct Tech, with Metromail. Should Metromail decide against its bid, it would be entitled to a $15m penalty payment and expenses.

Analysts welcomed the indication from GUS that it would not raise its offer for Metromail a second time. The UK company is under pressure not to chase potential acquisitions given its hostile £1.6bn ($2.7bn) cash bid for Argos, the catalogue retailer.

Argos, which is expected this week to announce a £350m-£400m share buy-back as part of its defence, yesterday told shareholders it expected "GUS will soon increase its bid". The retail strategy unveiled by Stuart Rose, the new chief executive, provided "compelling evidence" that Argos had excellent prospects.

Databases group hot on the information trail

By Richard Tomkins in New York

American Business Information, the US bidder for Metromail, has little in common with the UK's Great Universal Stores. But it wants Metromail for much the same reason as its rival: to get its hands on the company's mailing lists.

ABI, based in Omaha, Nebraska, is a small but fast growing company that has built up a vast database on US businesses.

Using telephone directories, annual reports, Securities and Exchange Commission filings, government data, business magazines and newsletters, it has compiled profiles of about 11m companies.

The information it provides customers is used for a variety of purposes, including the generation of sales leads, for direct mail and telemarketing, to profile potential customers and to locate potential suppliers.

The Nasdaq-quoted company was founded 25 years ago by Vinod Gupta, chairman. Last year, revenues rose from $108.3m to $193.3m, but the company incurred a net loss of $39.8m, compared with net profits of $3.8m the year before, following write-offs associated with acquisitions.

Compiling mailing lists is a labour-intensive business, and companies in the database business find it quicker – and often cheaper – to expand their lists through acquisition.

ABI has been highly active in this field.

Last month it completed the $19m acquisition of Walter Karl, a US direct marketing company that provides list management, list brokerage, database marketing and direct marketing services.

Other acquisitions have included last year's $18m purchase of Pro CD, a company that puts business listings on CD-Roms for use on personal computers.

Although ABI specialises in business information, it has been expanding rapidly into the consumer information market, which is extensively used by companies for direct marketing, telemarketing and other sales campaigns.

Last year's purchases included the $108.5m acquisition of DBA, the holding company for Database America Companies, a provider of data processing and analytical services for marketing applications and a compiler of information on consumers as well as businesses in the US.

A successful bid for Metromail would take ABI much further into the consumer market, because Metromail's main business is providing direct marketers with targeted lists of potential customers.

One drawback with the consumer market is that people tend to be more sensitive about being the targets of information-gathering exercises than companies.

Metromail recently ran into controversy when it emerged that it had been using prison labour to process information on consumers.

NEWS DIGEST

INVESTMENT BANKING

DLJ hires 23 staff from UBS Securities

Donaldson Lufkin & Jenrette, the US-based investment bank, has hired 23 staff from UBS Securities' financial institutions team, nearly doubling its coverage of that sector of the market, the company said yesterday. The most senior recruit is Richard Barrett, who formerly ran the financial institutions business of UBS and previously covered the sector at Salomon Brothers. He joins DLJ as managing director, and will co-head DLJ's financial institutions group with Leandro Galban, a DLJ managing director, who has led DLJ's insurance industry group since 1981. "With the addition of 23 experienced bankers, we will have comprehensive coverage of all [financial services] industry sectors and one of the strongest [financial institutions groups] on Wall Street," said Hamilton James, chairman of DLJ's banking group.
Tracy Corrigan, New York

OIL

Record year at PDVSA

Petróleos de Venezuela (PDVSA), the state-owned oil company, made record profits of 3,067bn bolivars ($5.86bn) in 1997. The company said in its annual report that higher production volume compensated for prices that averaged $16.32, or $2.07 less than in 1996. Average exports in 1997 were up by 300,000 barrels a day over the previous year to 3m b/d. PDVSA's production capacity reached 3.78m b/d by the year-end, the highest in its 26-year history.

The company reported proven oil reserves of 74.9bn in 1997, up 2.26bn barrels. Proven gas reserves were 145,500bn cubic feet at year-end. Raymond Colitt, Caracas

PHARMACEUTICALS

FDA approves Pravachol

Pravachol, Bristol-Myers Squibb's cholesterol lowering drug, has been approved by the US Food and Drug Administration for use in reducing the risk of stroke or recurrent heart attack in patients who have had a heart attack and have normal cholesterol levels. It is the first drug in its class to be cleared for these uses. More than 4m people worldwide are believed to suffer from strokes every year. Tracy Corrigan

LIFE ASSURANCE

Benmosche to head MetLife

Metropolitan Life, the second largest US mutual life assurer, yesterday announced that Robert Benmosche, a 53-year-old who joined the company two years ago after a career in the securities industry, was to take over as chief executive in July. Mr Benmosche said he would be lobbying to achieve the changes in New York state law needed for the company to convert to "mutual holding company" status. He said: "It's very hard to play the consolidation game with a currency other than cash. That's why we need some form of stock." He said potential acquisition targets included blocks of life or disability insurance although it would not overpay. John Authers, New York

ONLINE SERVICES

AOL targets business users

America Online has renewed its efforts to attract business users to its internet access service, currently used primarily by consumers. The largest online service, with more than 10m subscribers, AOL is targeting businesses with employees who need computer links while travelling. Mobile workers will be able to dial into AOL and establish links with their home offices.

AOL has formed partnerships with several computer security companies to provide reliable and secure connections. It also announced an agreement with International Business Machines' Lotus Development to enable users of Lotus Notes software to sign on to AOL. Previous efforts to boost business use were stymied by AOL's problems last year with network overcrowding and technical problems. Louise Kehoe, San Francisco

هكذا من الأصل

STRONG POUND AND ASIAN FINANCIAL TURMOIL FAIL TO HALT GROWTH AS NET PROFITS INCREASE 8% TO £160M

Burmah Castrol plans £250m for shareholders

By Virginia Marsh

Burmah Castrol, the lubricants and chemicals group, yesterday announced it intends to return at least £250m to shareholders, prompting a sharp rise in its share price.

Burmah said the move would almost certainly take place after the abolition of advanced corporation tax in April 1999 and that it would decide on the mechanism nearer the time. The company, with a market capitalisation of about £2.5bn, also announced better than expected 1997 results and ambitious expansion plans for China.

The shares closed at £11.70, up 6.3 per cent, after climbing to a high of £12.04, up 9.3 per cent. Analysts said the market's reaction reflected relief that the company did not intend to use surplus cash for big acquisitions, pointing to a disappointing record in this area.

The group weathered the strong pound and the financial turmoil in Asia to report an 8 per cent increase in net profits to £160.2m (£148.7m) on sales down 4 per cent at £2.94bn (£3.06bn). Pre-tax profits were up 7 per cent at £279.7m before exceptional charges of £42m. These mainly related to the reorganisation of the group, which is refocusing on its Castrol lubricants brand and on speciality chemicals.

The company said the strengthening of the pound had reduced operating profits in translation terms by £42m. At constant exchange rates, the increase in profits would have been 23 per cent.

Analysts upgraded their 1998 net profit forecasts by £5m-£10m to £150m-£155m and earnings per share of about 72p, for a forward p/e ratio of 18.

Tim Stevenson, who became chief executive last month, said pre-tax profits from Asia in sterling terms would be lower this year than the £99.9m achieved in the region in 1997.

As well as the sharp devaluation of regional currencies, profits would be lower because of the cost of expanding in the large Chinese market.

Mr Stevenson said. "We intend to become the leading foreign supplier in the motorcycle market," Mr Stevenson said. "There are already more motorcycles in China than in Europe and North America combined." There were about 28m motorcycles in the country, with the market growing at about 8m a year.

Mr Stevenson said the group aimed to sell its share in a Pakistan gasfield and some fuels businesses. It recently sold its liquefied natural gas business and last year sold several other non-core businesses.

Brian Hardy, finance director, (left) and Tim Stevenson: announced ambitious expansion plans in China — Sinead Lynch

Decaux enters fray with bid for More

By Andrew Edgecliffe-Johnson

More Group, the Adshel bus shelters and More O'Ferrall billboards company, yesterday withdrew its recommendation for a £446m takeover by Clear Channel of the US as Decaux, More's long-time rival, confirmed a £475m ($793m) bid.

Shares in More rose another 20p to £11.42½ on news of the bid, which values each share at £11.10. Clear Channel, whose interests span radio stations and outdoor advertising, said it was "actively considering" its reaction and urged shareholders to take no action.

Jean-Francois Decaux, chairman and chief executive of the family-controlled French group, rejected suggestions that Decaux's bid was merely a spoiler for Clear Channel or a means of gaining access to More's financial and strategic plans.

The two companies had discussed a possible merger of their UK, French and Belgian assets as long ago as 1995, he said, and Decaux had been planning for some time to start full-blown takeover talks.

Mr Decaux met Roger Parry, More's chief executive, yesterday morning. "We told him he would have a significant role to play in our family business," Mr Decaux said. "We need a tough manager to grow the business on a worldwide basis and as an Anglo-Saxon person he would bring a new culture into the business."

Mr Parry recommended shareholders take no action "pending clarification of the regulatory issues surrounding the offer" – reviving concern that a Decaux bid might not be allowed by UK competition authorities. More added that it had to "deliver maximum value and certainty to shareholders".

The two companies control 88 per cent of the UK market for advertising in bus shelters and public conveniences.

They also control almost all local authority street furniture contracts.

Mr Decaux said competition authorities should look at the entire outdoor advertising market in the UK, where More has a 21 per cent share and Decaux 3 per cent.

He added that there were already serious international competitors in the UK, such as Wall of Germany.

Decaux's founder, Jean-Claude Decaux, told Le Figaro in December: "I'm certain that if we did decide to make a bid [for any European outdoor advertising company], the competition authorities would consider I'd acted in a destabilising way and I think they would be right."

Decaux said Jean-Claude Decaux's reply was related to speculation about a possible bid for Avenir, the French group – and was three months out of date.

Blue Circle may spend £500m as it eyes east Asia

By Jonathan Guthrie

Blue Circle Industries, the building products company, said yesterday it was willing to spend up to £500m ($835m) on acquisitions. The company is keen to expand in east Asia, where the economic crisis has cut the cost of industrial assets.

Keith Orrell-Jones, chief executive, said: "The Chinese word for 'crisis' is a combination of words for 'opportunity' and 'danger', but we see more scope for opportunity than danger."

However, he warned there would be a sharp deterioration in trading in two important markets. He forecast that volumes of cement sales in Malaysia would fall 30 per cent this year, 10 percentage points more than expected, as construction slowed. Meanwhile, fierce competition in Chile would cut cement prices 20 per cent.

The shares fell 25½p to 368½p, as analysts cut 1998 profits forecasts by some £25m to £330m.

Mr Orrell-Jones said Blue Circle, the world's third largest cement producer, could spend up to £200m in east Asia. It was keen to expand in Malaysia and the Philippines, but would steer clear of Indonesia because "structural problems there are more deeply seated than in other economies".

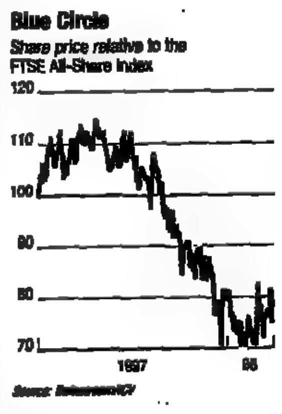
Asked whether Blue Circle was considering bidding for Hepworth, the UK building materials company capitalised at £583m, Mr Orrell-Jones said: "We may choose to participate in the consolidation in European building materials, but the new management should have the chance to deliver." Blue Circle is believed to be negotiating to buy a controlling £330m stake in Heracles General Cement, Greece's biggest cement producer.

According to yesterday's results, gearing at end-1997 was 18.9 (0.1) per cent.

COMMENT

Blue Circle

For Blue Circle to be lambasted because of its emerging markets exposure seems unfair. Shareholders would hardly thank it for sticking to mature markets where growth in demand for cement runs at below the rise in gross domestic product. But the downside to venturing further afield is the odd financial crisis. Blue Circle's interests in Malaysia will not escape the severe downturn in demand there. In Chile, Blue Circle's other main emerging market, buoyant demand has lured in competition. Hence the fall in prices.



But yesterday's 7 per cent tumble in Blue Circle's share price on these two black spots is overdone. Malaysia for instance, accounts for only some 5 per cent of Blue Circle's earnings. In fact, a greater worry for Blue Circle is that it is lagging behind rivals such as Holderbank in diversifying further into emerging markets. The concern is that the company may choose to spend its £500m war-chest on buying more expensive European businesses, such as Greece's Heracles Cement.

The company faces another strategic issue in its heating business, where it either needs to get big or get out. Given the business's returns on capital – 10.5 per cent compared with cement returns of between 18 and 24 per cent – Blue Circle should consider doing the latter.

More Group

There is nothing quite like a contested bid to wake up shareholders. Yesterday's bid from the privately-held Decaux for More Group, a British outdoor advertising company, should expose the previously agreed bid from Clear Channel of the US as shortchanging shareholders. After all, even Decaux's offer – worth 8 per cent more – still values More Group at an undemanding 10 times forecast 1998 earnings before interest, tax and depreciation.

However, shareholders salivating at the prospect of an Energy Group-style bid-battle should note that Decaux's bid may well be referred to the Monopolies and Mergers Commission. Although Decaux's and More's combined share of the total outdoor advertising market is some 24 per cent, within the street furniture segment it is nearing 90 per cent. Decaux's overlapping UK operations are worth between £5m and £10m in sustainable savings. This will provide some extra firepower over Clear Channel, but probably not enough to tempt shareholders to hold out for the duration of an MMC inquiry.

Bluebird recommends £46m Mattel offer

By Andrew Edgecliffe-Johnson

The battle for control of Bluebird Toys took an unexpected and acrimonious twist yesterday as Mattel, the world's largest toymaker, announced significant changes to the terms of its key contract with Bluebird and unveiled a rival bid to that of Guinness Peat Group.

Mattel said it was exercising its rights, under a licence agreement with Bluebird, to take control of the manufacturing of its Polly Pocket girls' toy, and to restrict Bluebird's margins in other markets where Mattel distributes Polly Pocket.

Although the licence was signed in 1989, the clause had never been disclosed before. Bluebird warned that there would be a "significant" reduction in its profits as a result of the change. It therefore recommended Mattel's £46m ($77m) offer, which is pitched at 111p per share as opposed to Guinness Peat's 101p hostile bid.

Blake Nixon, an executive director of Guinness Peat, said: "Bluebird has been trading on the USM market since 1989 and on the full market since 1994 without these details ever being disclosed.

"Shareholders are entitled to ask how Bluebird reconciles its regulatory obligations with not disclosing details of this contract in the 1994 listing particulars or subsequently."

Guinness Peat had asked three times to see details of the contract, Mr Nixon said, but was considering its position. It is believed to be examining legal or regulatory appeals to the Takeover Panel or Stock Exchange.

One shareholder, who would not be named, said he was "concerned" by news of the contract terms, which he had not known about before.

Chris Borgin, chief executive of Bluebird, said: "With the benefit of hindsight all contracts can look strange. When the business is going on as normal you tend to forget about contracts."

He added: "I don't think it is appropriate to reveal all the clauses, as this contract was subject to a confidentiality agreement." He gave no details of the likely impact to profits of the contract change, but said Polly Pocket accounted for 50 per cent of group sales in 1996.

Mattel said the acquisition and the contract change would allow it to stop paying royalties to Bluebird, take control of distributing Polly Pocket and Disney Tiny figurines in the UK, and gain control over product design.

Bluebird is advised by SBC Warburg Dillon Read, Mattel by Robert Fleming, and Deloitte & Touche corporate finance advises Guinness Peat.

Bacardi pays Diageo more than expected

By John Willman

Bacardi-Martini, the world's fourth-largest drinks company, yesterday clinched the purchase of Dewar's Scotch whisky and two Bombay gin brands from Diageo for £1.15bn ($1.92bn) – a far higher price than analysts had predicted.

With 2.8m cases sold last year, Dewar's is the leading Scotch in the US. Bombay gin offers Bacardi, the world's fourth-largest spirits group, the opportunity to acquire one of the fastest-growing brands in the gin sector.

George Reid, Bacardi's president and chief executive, said: "In an industry that is consolidating rapidly, it became clear to us that Bacardi had a unique opportunity to acquire two world-class brands. It demonstrates our ambition to remain a major player in the industry."

Finance to cover the cash purchase has been raised by Goldman Sachs, the US investment bank, through a syndicated bank loan. This will be refinanced later on a long-term basis on the capital markets.

The sales, which are expected to be completed in 60 days, are subject to approval by US and European Union regulators.

The auction of the three brands was conducted by Credit Suisse First Boston, the investment banking arm of Credit Suisse, the Swiss bank.

The price paid by the Bermuda-based group – maker of the eponymous white rum – was well above consensus estimates that the sale would fetch about £700m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Andrews Sykes	Yr to Dec 27	59.9	(53.5)	11.7	(7.91)	98.1	(33.6)	10	May 29	8.5	15	10
Antofagasta	Yr to Dec 31	152.8	(180.4)	181.4¶	(44.8)	197	(193.5)	4.75	June 18	4.5	7	6.5
Ascot	Yr to Dec 31 ☆	234.9	(98.7)	30.2♦	(5.94)	30.5†	(18.5)	6	June 11	3.9	9	5.9
BCH	Yr to Dec 31 ‡	55.8	(46.5)	2.89	(2.03)	18.2†	(10.5)	0.8	May 29	-	0.8	-
Bisichi Mining	Yr to Dec 31	3.75	(3.34)	0.368	(0.161¶)	2.18	(1.35)	0.9	Aug 27	0.83	0.9	0.81
Blue Circle	Yr to Dec 31	2,219	(2,160)	246.3♦	(287.8)	17	(23.5)	9.85大	July 28	9	14.5大大	13.25
Bourne End	Yr to Dec 31	16□	(15.2□)	0.444♦	(0.684)	1.01†	(0.76)	0.65	July 3	0.65	1.2	1.2
Burmah Castrol	Yr to Dec 31	2,936	(3,060)	237.7♦	(272.4¶)	58	(74.2)	13.5大	-	31	40.5大	42大大
Burn Stewart	6 mths to Dec 31	26.7	(32.6)	2.38L	(1.78)	2.88L	(2.03)	nil	-	1.7	-	3.4
Dreston Land	6 mths to Dec 31	2.88	(2.39)	0.404¶	(0.169)	0.43	(0.19)	-	-	-	-	-
Culver	Yr to Dec 31	65.3	(77)	0.103¶	(0.315)	5.04†	(4)	nil	-	4.25	3.25	7.5
Dentmaster ♦	6 mths to Dec 31	2.46	(1.83)	0.173	(0.129)	0.087	(0.066)	-	-	-	-	-
Dinkie Heel	Yr to Dec 31	9.81	(9.25)	0.382	(0.641)	2.76	(3.81)	1	Apr 30	1	1.6	1.6
Doefler	Yr to Dec 31	81.5	(72.4)	5.95	(4.854)	24.09†	(22.38)	5.75	May 29	5.2	8.5	7.7
Friendly Hotels	Yr to Dec 28	60.8	(45.2)	7.54¶	(4.47)	25.5	(20.7)	3.7	May 14	3.5	5.9	5.7
Gaskell	Yr to Dec 31	48.8	(43.7)	3.6	(1.2)	51.8	(16.4)	6.1	July 3	5.5	8.5	4.85
IFG ‡	Yr to Dec 31	22.7	(17.2)	2.31	(1.56)	4.71	(3.31)	0.75	Aug 31	0.6	0.75	0.6
London & Assoc	Yr to Dec 31	8.22□	(5.92□)	1.82	(1.75¶)	2.4	(2.29)	0.9	July 20	0.72	0.9	0.76
London & Manchester	Yr to Dec 31	334.6▥	(327.8▥)	44.9♦	(51.1¶)	24.33	(37.69)	17.44	June 11	13.09	24.84	20.29
Maiden	Yr to Dec 31	63.2	(55.1)	10.1	(6.85♦)	17.7†	(12)	4	May 26	3.6	6	5.5
Manchester United	6 mths to Jan 31	51.6	(50.1)	14.9	(19.5)	4.1	(5.3†)	0.52	May 6	0.475*	-	1.55*
Marchpole	Yr to Dec 31 ☆	45	(38.9)	12.5	(8.25)	7.13	(-)	-	-	-	-	-
Newsquest	Yr to Dec 31 ☆	278.9	(266.1)	52.4	(28.3)	17.8	(11)	-	-	-	-	-
Oliver Ashworth	Yr to Jan 31	82.4	(78.5)	3.72	(2.92)	13†	(11.28)	3.25	May 30	1	5	1
Porton Foods ♦	6 mths to Nov 30	2.65	(1.17)	0.0521	(0.06)	0.618L	(0.028)	-	-	-	-	-
Primesight	Yr to Dec 31	13	(11.5)	0.826	(0.468)	16.27†	(9.51)	0.5	May 29	-	0.5	-
Streamline	Yr to Dec 31	166	(162.2)	15	(13.5)	17.8	(16.7¶)	6.2	May 29	5.8	8.2	8.8
T&S Stores	Yr to Jan 3	549.1	(500.2)	20♦	(17.7)	18.68	(16.79)	5.25	May 29	4.75	8.5	7.75
Torex	Yr to Dec 31	27	(10.9)	7.29¶	(1.47)	15.2†	(4.3)	1.5	May 8	1.5	2.3	2
Tyzack Precision	6 mths to Jan 31	5.25	(18.7)	0.237L	(0.612L♦)	1.8L	(3.6L)	nil	-	1.25	-	4大大
Ulster TV	Yr to Dec 31	34.8	(34.5)	8.27	(9.02¶)	10.9	(11.49)	3.2	June 2	2.85	5.7	5.1
Whitecroft ♦	Yr to Dec 31	4.65	(3.54)	0.289L	(0.088L)	-	(-)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Second Market	Yr to Dec 31	576.2	(697)	0.507	(1.22)	2.78	(7.18)	2.7大	May 12	6	2.7大	6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦After exceptional charge. ¶After exceptional credit. ☆Comparatives for nine months. †On increased capital. ‡Comparatives for 14 months. 大Foreign income dividend. #Date dependent on timing of internal restructuring. 大大Includes FID element. □Rental income. $Irish currency. ▥Premium income. ♦Aim stock. *Adjusted for scrip issue. ☆Pro forma.

Second Market refocuses

By Jean Eaglesham

Second Market Investment Company yesterday became the first UK investment trust to prepare for monetary union by announcing plans to scrap its single country status in favour of a pan-European portfolio.

SMIC, which has specialised in France, expects other funds specialising in a single continental European country to follow suit before Emu begins next January.

"How many unit or investment trusts are there investing solely in Texas?" said Robert Van Maasdijk, chairman. "If we are serious about creating a single Europe . . . a single country fund in Europe will effectively be a defunct concept."

Analysts generally agreed with this stance, saying it was a rational move.

TURKISH ENERGY

A wholly liberalised energy market is the goal the government has set for itself reports **John Barham**

Seeking a way through the smog

In spite of decades of mismanagement, which have seriously damaged Turkey's state-controlled energy sector, guarded optimism over the prospects for reform is possible.

Mesut Yilmaz, prime minister since last July, has maintained a remarkable *degree of continuity in* energy policy, unlike many other areas of Turkish politics.

The government is continuing and elaborating on efforts by previous administrations to inject private capital and free market competition into the provision of energy.

Furthermore, Cumhur Ersümer, the energy minister, says he is confident that the highly effective legal challenges mounted by opponents of private investment in public services will soon be exhausted. He promises that the government will "*make the necessary* changes in the laws to enable Turkey to comply with [international legal] standards".

This could open the door to substantial private investment, held at bay for years by courts hostile to private, especially foreign, capital. Worsening blackouts may also force the judges to relent.

The government hopes this would open the way to a wholly liberalised energy industry. Billions of dollars would pour into the country to finance new power stations and rehabilitate existing ones.

Botas, the pipeline monopoly, would be broken up and privatised. The state's refineries and petrol stations would finally be revamped and privatised.

International companies are eager to invest in Turkey. It is a large and fast-growing market. Although Turkey is racked by political and economic instability, it is a member of important *international clubs*, such as OECD and Nato, which makes raising finance somewhat less arduous than would otherwise be the case, given its below-investment grade credit ratings.

Brian Snow, senior business development manager at National Power, the Brit*ish utility, says Turkey is* "an important investment target. It will be one of our biggest investments anywhere in the world".

National Power is planning to commit more than $300m in equity to five projects in Turkey, plus a large additional portion of debt *finance*.

The British utility is building a gas-fired power station beside the Sea of Marmara, it is in negotiation to build another gas-fired generator in the capital, Ankara, and has won exclusive rights to negotiate terms with the government to operate three existing state-owned coal-fired power stations.

Government officials say *they still hold* the upper hand in negotiations despite Turkey's urgent need to increase supplies. Haldun Danisman, energy ministry deputy under-secretary, says "it seems there is quite a good amount of money available" for investment in Turkey.

Some *bankers fear, how*ever, that the government's ability to impose low electricity prices may condemn *private operators to unsus*tainably low margins.

The gas industry is also poised for rapid transformation. Cambridge Energy Research Associates, a consultancy, expects the capacity of gas-fired power stations will rise to 10-11.5 gigawatts in 2005 from 4gW now and help push gas consumption up by about 80 per cent to 21.5-26.5bcm a year.

Turkey has not decided where it will import all the extra gas from nor how it will be paid for. Turkey will increase some imports from Russia, which Mr Ersümer says now supplies 57 per cent of the country's gas supplies.

Iran has large underdeveloped reserves, but US hostility makes consummation of a 1996 $23bn gas import deal unlikely. A link from gas-rich Turkmenistan through Iran to Turkey could also face US opposition.

A pipeline from the Caspian basin depends on approval of a controversial oil pipeline between Azerbaijan and Turkey's Mediterranean port of Ceyhan that is the focus of intense competition with Russia.

Turkish officials say they want to build the country into a strategically important energy crossroads, where pipelines carrying oil and gas from the east would converge on their way to markets in the West.

This would also end Turkey's reliance on Russia, diversify sources of supply, earn Botas large transit royalties *and cement Turkey's* political influence in the Turkic central Asian republics.

However, all this lies far in the future. Blackouts are currently commonplace. Dense, foul-smelling smog cloaks Turkey's big cities during winter as households burn lignite coal because the state-owned pipeline company cannot supply enough clean-burning natural gas.

The government's oil refineries run up big losses every year because politicians force them to sell fuel below cost. Private companies must build their own mini-power stations to ensure uninterrupted electricity supplies.

The deficit-ridden treasury cannot find the $4bn a year needed *to maintain* the electricity network and expand supplies to meet demand growing at 9 per cent a year.

Neither can the state, crushed by debts of $100bn, adequately finance a new system of gas pipelines needed to power new electricity generators. Insufficient *energy supplies* are an obvious constraint on Turkey's economic growth.

As blackouts become more common, particularly in large cities, they could further undermine confidence in the present conservative government despite – or because of – its efforts to liberalise energy services and attract foreign investment.

Turkey must still convince sceptical banks *that its* legal and regulatory systems are robust enough to justify billions of dollars in power sector loans.

The courts are still mulling whether the government's latest version of private finance legislation conforms to existing legal doctrine. This *forbids* international arbitration and grants the Danistay administrative court powers to review, amend and cancel concession contracts, a term courts interpret widely enough to embrace all power sector investments.

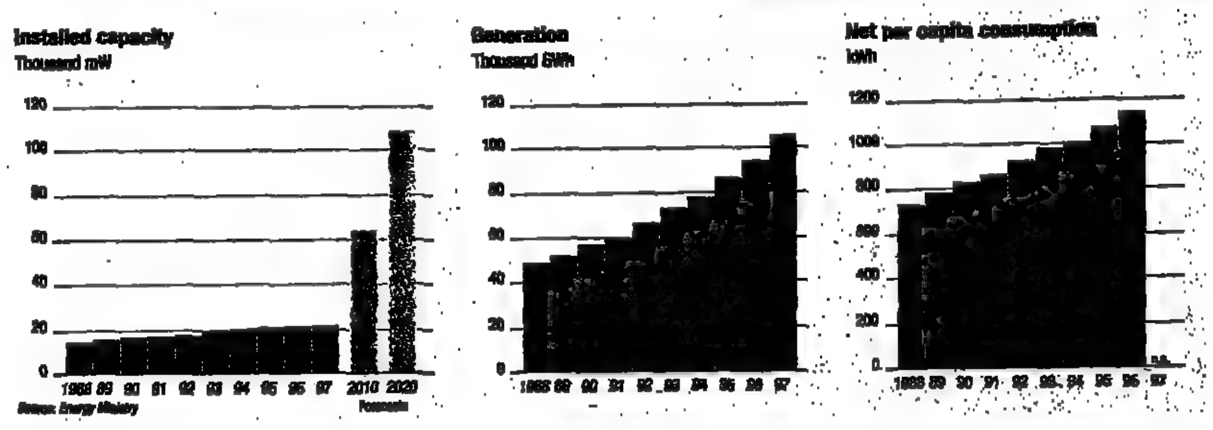
Approval is by no means certain. The opponents of private investment in public services are a well-organised and highly effective alliance of left-wing, nationalist politicians and statist judges and bureaucrats.

They have the quiet support of many ostensibly pro-government MPs who need the public sector as a source of patronage to oil the wheels of politics.

Mümtaz Soysal, a constitutional lawyer and left-wing nationalist politician has stalled almost every privatisation Turkey has attempted. He once declared: "What are being sold are the ports which are Turkey's gates, the factories which are the country's chimneys and the energy plants which are the country's *stove*.

"This is not privatisation. This is downright robbery, theft and plunder."

Opponents of reform point to past public sector engineering glories such as the Atatürk hydroelectric dam in Southeast Anatolia



Even his adversaries admire his intelligence and determination. One lawyer working for multinational companies agrees with Mr Soysal that the government must amend the constitution's restrictions on concessions before Turkey can attract substantial foreign capital.

This looks unlikely since Mr Yilmaz, who lacks a majority in parliament, would find it hard to muster a two-thirds majority needed to amend the constitution.

Blocking reform would *shift* the burden of financing energy projects back to the treasury. The supporters of a state-financed and -managed power industry say this allows the state to manage a vital industry on behalf of society.

They point to past public sector engineering glories such as the huge Atatürk hydroelectric dam, centre-piece of the $32bn Southeast Anatolia project to develop the country's poorest region.

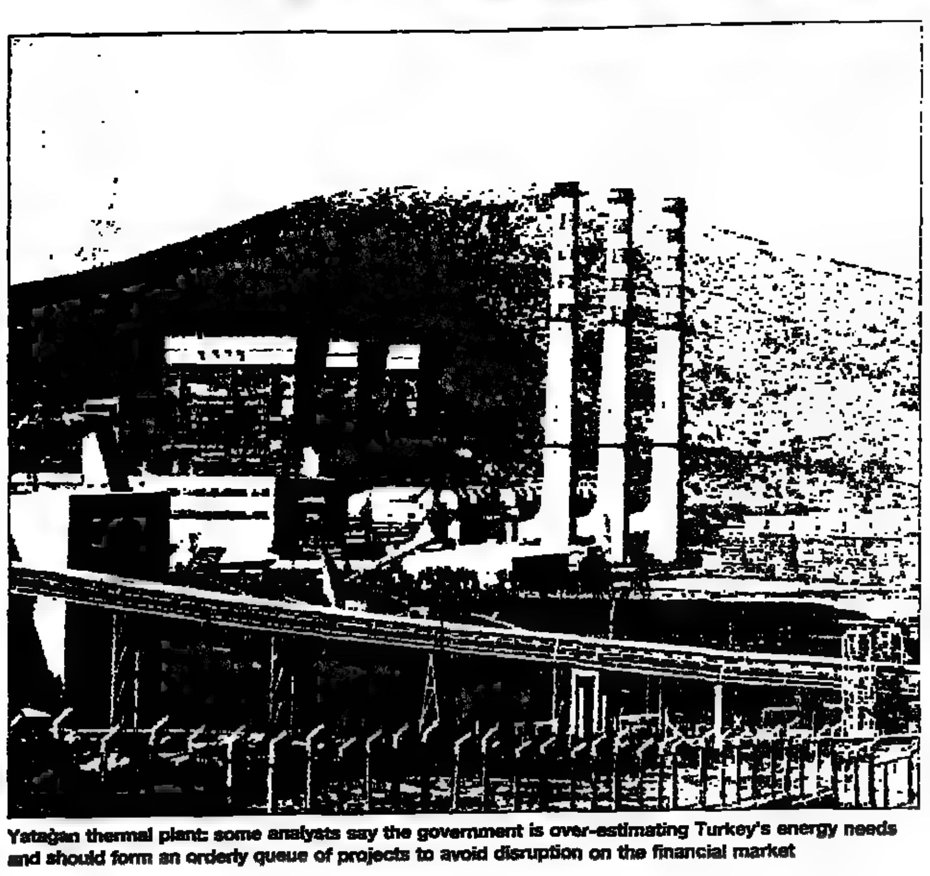
Other problems are of the government's own making. Although there has been a continuity in energy policy throughout the 1990s, the rapid turnover in governments, ministers and civil servants has disrupted its execution.

As a result Turkey is now trying to privatise its electricity industry without having first established an independent regulator.

Although Coopers & Lybrands, the international consultants, are drawing up a draft regulatory framework, uncertainty over how a future regulatory system will work clearly makes it more difficult to raise finance for power projects.

Delays have caused a large backlog of projects which, if the courts approve the government's private finance laws, would hit global financial markets simultaneously.

However, given Turkey's considerable energy needs, the inability of the state to finance the necessary investments and the willingness of private business to enter the market, it seems scarcely conceivable that the legal obstacles to reform cannot be removed.



Yatağan thermal plant: some analysts say the government is over-estimating Turkey's energy needs and should form an orderly queue of projects to avoid disruption on the financial market

PROJECT FINANCE • by John Barham

Bankers try to steer through obstacles

Suspicious judges are holding up the delivery of private cash for energy schemes

Financing energy projects in Turkey is probably every bit as intricate and frustrating a task as building or managing power systems. However, bankers hope that they may be close to overcoming one of their most daunting challenges – dealing with a hostile legal system.

Interference from judges suspicious of private, especially foreign, capital has allowed only a few privately financed energy projects to go ahead, even though it is more than a decade since Turkey revealed its private infrastructure finance laws.

Lale Göçmez, vice-president at Chase Manhattan Bank's Global Power Group, says various compromises that satisfy lenders and judges are in the making. She says this new framework "will never be perfect, but we think it will work. That is why we are putting our time into these projects".

For instance, judges of the Danıştay administrative court that vets infrastructure contracts may not be required to review side agreements between a privately-financed power station's fuel suppliers or the electricity sales agreements which would confirm foreign investors' right to international arbitration to settle disputes.

Once the legal problems are overcome bankers will still face the formidable task of finding large amounts of money to finance a backlog of infrastructure projects.

Bankers estimate that the portfolio of projects being negotiated, which include greenfield power stations, concessions to operate generators and distribution systems and a large number of build-operate-transfer projects would require investments of more than $10bn.

Eren Gura, project finance officer at Citibank's Istanbul office, warns: "The appetite for Turkish risk is not very big. We are not talking just about energy projects.

"We have a lot of infrastructure and government [loans] and privatisations. This is putting a lot of pressure on markets."

Some energy analysts say the logjam may be less serious than it appears. They believe the government is over-estimating Turkey's energy needs by as much as one-third.

Projects of marginal importance will not be built because they cannot generate sufficient revenue. One consultant argues: "Private energy projects are financed by guaranteed offtake contracts. They are financeable only when there is real demand for their power."

Mr Gura says Turkey should establish an orderly queue of projects to avoid disruption on financial markets.

The race will be won by strong groups that can clear bureaucratic and regulatory hurdles quickly and with a minimum of interference. Consortia with well-regarded international companies will also come out ahead. A good track record in building and managing projects in other countries will help to convince lenders that a power station can be built on time and on budget and can be operated efficiently.

A local partner with good connections in Ankara will be able to win approvals quickly. Each type of project requires a different type of finance. Bankers say companies taking over a distribution network or power station will have to provide about 20-30 per cent of the finance from their own equity and the rest from commercial loans backed by parent company balance sheets.

Given the high interest rates and short maturities on Turkish domestic currency loans, companies must borrow in hard currency. Multilateral lenders such as the World Bank or its private sector arm the International Finance Corporation are expected to complement private bank lenders.

The greenfield projects to be built on a build-operate basis should be easier to finance since their imported turbines and machinery will attract soft loans from export credit agencies in Europe, North America and Japan. This would reduce the amount of commercial loans and equity finance.

For instance, in Turkey's first big privately financed power project, the 672mW Birecik hydroelectric dam, two-thirds of the DM1.9bn in senior debt that Chase Manhattan raised for the project in 1995 came from European export credit agencies with a term of 15½ years.

The commercial portion had a tenor of eight years. The consortium led by Philipp Holzmann, the German construction company, injected DM300m equity into the project. A further DM100m in finance will come from start-up revenues.

However, Birecik's build-operate-transfer finance model is not entirely applicable to today's projects, in part because they do not enjoy the lavish guarantees the treasury provided for the first generation of privately financed projects.

The strong interest shown by international utilities and energy companies further strengthens the government's hand in forcing down prices in the electricity offtake agreements which form the backbone of an energy project.

Financiers worry that operators are accepting excessively low tariffs just to win a foothold in the Turkish market. A banker says: "All these projects have fixed tariffs which would be difficult to change."

Turkey's poor credit rating further complicates financing energy projects. Standard and Poor's gives Turkey a B rating and Moody's Investor Services rates the country B1.

Energy projects must now pay much higher interest rates than executives expected when they were drawing up plans prior to south-east Asia's financial crisis. Still, Turkish companies say their cost of funds remains manageable.

And there is always a risk that courts will not accept a compromise that suits international lenders. In this case banks will probably demand more treasury guarantees, which would undermine the very purpose of using private finance for infrastructure projects. Ultimately, banks would no longer be lending to a project but to the government.

However, Ziad Alahdad, the World Bank's deputy chief of mission in Ankara, says every step Turkey takes towards liberalising its energy market, establishing a predictable regulatory environment and stabilising the economy will make energy deals easier, cheaper and faster to finance.

He adds: "It is all about giving the right signals. If the signals are right [deals] will happen."

GAS • by John Barham

Politics fuelling problems

Offending the US or becoming too dependent on the Russians are potential hazards

Turkey has chosen natural gas as the fuel of choice to power its new generation of power stations. This makes a lot of sense. Natural gas is much cleaner than the coal, lignite or oil that powers Turkey's thermal power stations now.

The country is close to some of the world's largest gas fields in Iran, Iraq, Turkmenistan and Russia. Turkey straddles many of the pipeline routes that could ultimately transport gas westwards to markets in Europe.

Ankara has signed import deals with all these countries except Iraq. However, each agreement has serious drawbacks. Russia already supplies nearly all Turkey's gas, so increasing imports from Gazprom, the Russian gas company, would increase dependence on a historical rival for regional power.

The central Asian former Soviet republic of Turkmenistan is beginning to develop its giant gas fields. But this would require construction of a pipeline through Iran to Turkey or under the Caspian sea to run parallel to a proposed Azerbaijan-Turkey oil pipeline.

In 1996 Necmettin Erbakan, Turkey's former Islamist prime minister, signed a $23bn, 23-year gas import deal with Iran. However, this could violate the 1996 D'Amato law which imposes US sanctions on companies investing more than $20m in Iran's oil and gas industries.

Cumhur Ersümer, energy minister, says: "Oppose natural gas from Russia, oppose natural gas from Iran, oppose natural gas from Turkmenistan – what will happen then? Turkey needs natural gas. This is the most important issue for me."

Botaş, the state pipeline monopoly, forecasts that gas demand will triple to 43.8bn cubic metres (bcm) by 2005 and reach 53.3 bcm in 2010.

However, some analysts say Botaş may be substantially overrating demand. Peter Hughes, director of European gas and power at Cambridge Energy Research Associates, expects demand to reach 21.5-26.5 bcm in 2005, rising to 32-43 bcm in 2010.

Mr Hughes believes Turkey will import most of its growing gas requirements from Russia. Moscow already sells 8 bcm of gas a year through a pipeline that runs across Romania and Bulgaria.

During an official visit to Turkey last December, Viktor Chernomyrdin, then Russian prime minister, signed a deal to build a new, but technically risky, 1,200km pipeline at an estimated cost of $3.3bn, part of which would run beneath the Black Sea.

This so-called Blue Stream pipeline would transport 16 bcm of gas a year to Turkey by early next century. However, many doubt this project will be built because it is too expensive and faces too many technical challenges.

They say the only practicable ways of bringing more gas from Russia are along the existing western route through Romania and Bulgaria or a new eastern route through Georgia.

Some suspect that Gazprom and Botaş are using the Blue Stream as a ploy to dissuade Romania, Bulgaria and Georgia from demanding excessive transit fees.

Turkey should eventually be able to increase imports from other countries and ease its dependence on Gazprom. Washington may ease sanctions against Tehran, which would enable a privately financed pipeline to be built across Iran linking Turkey and Turkmenistan.

William Daley, US commerce secretary, said in January: "At this time we don't see [the deal] as a violation of our laws, or sanctionable. However we reserve judgment [until we] see the final arrangement." This could leave the door open to later consummation of the 1996 gas agreement with Iran.

Still, Botaş may not be able to increase supplies fast enough to meet growing demand from households, industry and the new power stations. The gap could be partly closed by increasing imports of more expensive liquefied natural gas by sea from suppliers as far away as Algeria or Qatar. It is upgrading its existing LNG terminal on the Sea of Marmara and plans a second terminal on the Aegean sea.

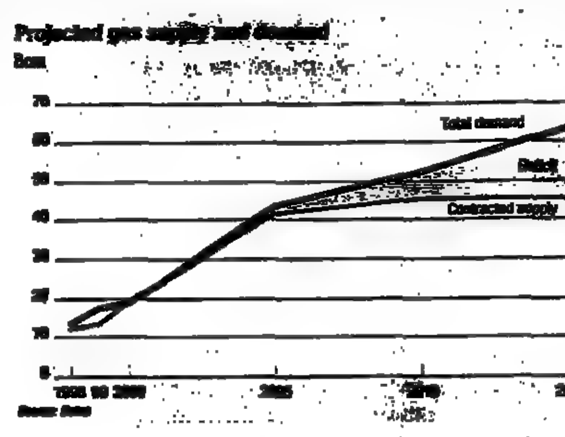
Gas shortages would make arranging private finance for gas-fired power stations all the more difficult. Lenders will not want to back a project vulnerable to shutdowns that would cut cashflow and increase the risk of non-payment of debt.

Botaş is not guaranteeing gas supplies to any of the new generation of gas-fired power stations and is even blocking attempts to liberalise the supply system that would enable operators to import gas independently.

The International Energy Agency, the Paris-based energy thinktank, urges rapid liberalisation of the gas industry to attract finance needed to expand supplies. In a report last year it said Turkey should start by removing subsidies on competing fuels, such as coal. The tax system should be modified to reflect the higher environmental cost of other fossil fuels such as coal and oil.

The IEA suggested that the government scrap Botaş's monopoly on imports and domestic transport. It said: "The initial step should be to allow parties other than Botaş to import gas and supply particular industries or regions using Botaş transmission pipelines if necessary with regulated transmission tariffs."

This view is supported by lenders and other international agencies such as the World Bank. However, Botaş is fiercely resisting any encroachments on its privileges, stressing its importance to national security and appealing to the powerful military for support in an internal power struggle over Turkey's energy future.



ELECTRICITY • by John Barham

Marriage of power and planning

A threefold rise in generating capacity is likely to be needed in the next 12 years

Turkey is one of the world's fastest-growing power markets. The Paris-based International Energy Agency says electricity consumption rose 9 per cent a year between 1973-95, twice the rate of growth in the country's total energy demand.

"The Turkish government expects demand to keep rising very fast. Cumhur Ersümer, the energy minister, says: "Demand increases 10 per cent every year, which means Turkey needs to add 2,000MW every year.

"Turkey needs to invest $3-5bn [every year] to increase capacity."

Mr Ersümer, says generating capacity must rise threefold to 64,341MW between now and 2010. The investments, to be borne mainly by private investors, will be substantial.

The government says Turkey will need to invest about $40bn to 2010 to expand capacity and overcome supply bottlenecks which are already constraining growth.

More cautious private forecasters say the country would need to build about one-third less capacity, estimating capital spending to 2010 at a still substantial $25bn.

Demand for electricity has risen strongly despite Turkey's heavy inflation, high real interest rates and volatile growth.

The consultancy Cambridge Energy Research Associates says electricity consumption between 1997-2010 should grow by 86 per cent to 175TWh, assuming average gross domestic product growth of 3.5 per cent a year.

However, were the government to halt inflation and set Turkey on a high growth path, CERA expects consumption would rise 118 per cent to 206TWh in 2010, assuming average annual GDP growth of 5 per cent.

Pierre-Marie Cussaguet, an IEA analyst, notes that demand for power is being driven as much by social policy and political factors as by economic growth patterns. He says the state distribution company Tedaş "wants to link as many villages and households as possible without taking economics into account". He adds that a government policy of maintaining low household electricity prices boosts consumption further as the population grows and incomes rise.

Between 1980 and 1996 the country's population rose by about 40 per cent, but net per capita consumption of electricity rose 150 per cent. Yet Turks still consume less than half as much electricity per head as in neighbouring Greece, the European Union's poorest member state.

Britain, which has Europe's most liberalised electricity system, consumes five times more per head than Turkey. As incomes rise this gap will close, increasing pressure on power generation and delivery systems.

Turkey is a young country reputed to celebrate 1m marriages a year. Each new family must buy basic household goods such as a fridge or a washing machine as well as moving into a new home, further increasing demand for power.

Salomon Brothers, the Wall Street investment bank, said in a research note: "Demand for consumer durables has risen annually by 8 per cent since the late 1980s, outpacing average real GDP growth by 2.5 percentage points.

"This trend looks sustainable over at least the next five years as penetration [rates] in the washing machine and dishwasher markets remain low."

Furthermore, Turkey is urbanising rapidly as peasants leave the land for the big cities in the west of the country.

The OECD says that in 1989 half the country's population was engaged in agriculture. In 1994 the figure was 45 per cent, which indicates that urban populations rose by about 3.5m in the intervening five years.

Inadequate planning has increased the stresses these social movements impose on the power infrastructure.

The World Bank estimates that Turkey's generation and distribution system is working at about 20 per cent below capacity due to insufficient maintenance and electricity theft.

Vote-hungry politicians prefer building new power stations which they can present to voters as visible signs of progress rather than increasing budgets for the less glamorous but equally important business of power station and distribution system maintenance.

Improving efficiency would be relatively inexpensive and could raise supplies far more quickly than building new capacity. The government is now transferring management of power stations and distribution networks to private operators.

Mustafa Süer, an industrialist who is investing almost $1bn in electricity generation and distribution concessions, says his company can raise output by 20 per cent simply by improving management efficiency and maintenance.

Raising residential and industrial building standards to international levels and adopting energy conservation methods common in western Europe would cut waste further. Turkey is only gradually introducing a differential tariff structure to discourage peak hour consumption by households.

Turkey's large and growing underground economy adds to the hazards of forecasting demand. The informal economy has grown so large that it makes a mockery of official data.

In 1994, when Turkey suffered one of its most severe economic crises, electricity generation actually rose 8.1 per cent, even though official statistics say the economy shrank by 6.2 per cent that year.

PRIVATISATION • by David Tonge*

Modernist policy likely to prevail

Energy needs are so severe that Turkey must involve the private sector

Will the "modernists", who want private sector investment in energy, overcome traditionalists who see allowing foreign investment as tantamount to recreating the conditions which bankrupted the Ottoman Empire?

In practice there is only one answer because Turkey's energy needs are so severe that it does not have the luxury of choice. The energy ministry says demand for electricity will quadruple to 547bn kWh by 2020.

Botaş, the state-owned pipeline monopoly, forecasts that by 2010 Turkey will have a natural gas deficit of 8bn cubic metres (bcm), rising to 19bcm by 2015.

Energy policy is a strategic issue for the government and a regular item on the agenda of the country's National Security Council.

Most immediate are the problems of electricity shortages. Electricity consumption is growing at 7-8 per cent a year and, with power cuts a growing problem, the ministry estimates that Turkey needs to spend $4.5bn a year on generation, transmission and distribution.

"The huge dimension of these investments makes it difficult to lay the burden entirely on the state. Privatisation stands before us as the rational solution," says Mustafa Vuruskaner, deputy under-secretary for energy.

Government efforts to attract private investment in energy date back to the 1980s with the launching of Turkey's build-operate-transfer (BOT) model. Under this investors could build and operate private sector generation facilities before transferring them to the state after, say, 20 years.

This ingenious scheme was initially undermined by a sceptical bureaucracy and more recently by a highly organised statist group of politicians, engineers and trade unionists who argue that giving the private sector the licence to produce or distribute electricity amounts to awarding a "concession".

The Turkish constitution requires that the Danıştay, or administrative court, must review concession contracts and resolve disputes arising from them. The Danıştay has taken to itself the right to alter the wording of contracts.

Lawyers complain that texts approved by the court have been widely different from those agreed between the signatories. "A gross abuse of power by individuals as opposed to private sector generation," says one lawyer, adding that it can take up to four years to negotiate all the permits involved.

Such legal challenges have set back investment in new capacity by three to five years. At the end of 1997 only 297MW of Turkey's installed capacity of 21,901MW came from BOT projects, though a further 1,935MW was under construction, with all approvals apparently in place.

Investors include Enron of the US and Britain's National Power. The government continues to rely on this BOT procedure for hydroelectric, geothermal and nuclear generation facilities. The government has also used BOT rules to organise bidding for the transfer of operational rights of no less than half of Turkey's generating capacity.

Of the 10,700MW capacity which has been tendered, one plant of 30MW has been formally transferred to the private sector, plants totalling 2,064MW are under review by the Danıştay, others totalling 4,883MW are under negotiation, 3,100MW will be retendered and 600MW is under evaluation.

Companies involved in this process include National Power, PacifiCorp and Peabody as well as a range of leading Turkish companies. The fees due to the government will exceed $2bn.

Private companies are also taking over operation of 29 local distribution networks under BOT regulations. Four previously awarded private concessions are already working. The government hopes to raise $1.6bn from the second round of concessions which will have a life of 30 years. Twenty concessions have been awarded and the remaining five areas are to be retendered.

The latest attempt to overcome the concession issue is a law allowing a build-operate (BO) approach for thermal plants under which generation is clearly separated from transmission and distribution. The government recently awarded tenders for 5,200MW of plants under this model. Three of the five tenders have been won by the consortium of Turkish contractor Enka with Intergen, a subsidiary of Bechtel, now owned 50 per cent by Shell.

The companies involved in BO projects are seeking to finalise their contracts. Lawyers involved say that particularly problematic are the rigid stand taken by TEAŞ, the Turkish Electricity Company, and the courts' reluctance to approve contracts allowing arbitration abroad.

However, the Turkish courts frequently decline to enforce a foreign arbitration tribunal's finding, citing the "public policy" clause of the New York Convention on Arbitration.

William Daley, US secretary of commerce, raised this issue forcefully during his visit to Ankara in January. The message is slowly getting through.

Turkey's energy ministry is pressing for a new approach on arbitration procedure. But, after the rocky ride of the past five years, would-be investors are advised to believe this when it happens.

*David Tonge is Managing Director of IBS Research & Consultancy of Istanbul, which has been assisting investors in Turkey's energy programmes

LEGAL FRAMEWORK • by Hugh Verrier and Zeynep Çakmak*

Putting the donkey on the roof to work

Established law is not necessarily an ass, but it is raising obstacles to private projects

Turkey's first four large private power projects were financed in a remarkable 15-month period in 1996-97. But since then the legal regime for private power has become a quagmire in which all other projects have become entrapped.

It is not that the need for private power has dried up. The ministry of energy has launched 13 tenders for 161 new projects since 1996, and numerous untendered projects continue.

The hiatus is due rather to adverse court decisions. Starting in 1992 and culminating in a landmark constitutional court decision in 1996, Turkish courts have viewed the generation and distribution of electricity as a public service that should be provided by the state.

It considers any delegation of this service to be a "concession". The Turkish constitution requires that concession terms are reviewed and approved by the Supreme Administrative Court (or "Danistay" in Turkish) and that disputes thereunder must also be resolved by Danistay.

These concessionary features are not objectionable in principle, being intended to protect the state.

But in practice Danistay review has taken years for larger projects and approval has been obtained only after the Danistay rewrote contract terms to make the state's rights superior to the investors', eliminating international arbitration.

The sensitivity toward concessions dates back to the Ottoman Empire, when foreigners obtained wholesale concessions of important parts of Turkey, known as "capitulations".

The 1923 constitution establishing the Turkish Republic included procedures to prevent the reintroduction of capitulations.

Turkish constitutions have not defined what a concession is. Instead, the courts have developed a sweeping definition roughly summarised as the provision by a private party of a public service traditionally performed by the state.

Power plants, airports, water treatment facilities, roads, bridges and most infrastructure projects – even marinas – are now labelled concessions.

If this definition seems far removed from the excesses of the capitulations, the deep sensitivity to private participation in public service is not. It is a rallying cry for those who believe that the private supply of electricity constitutes an abdication by the state of its responsibilities.

These opponents of private power advocate return to an era when technocrats ran the power industry in the best interests of the state, before the government allegedly undermined the system through political interference.

Detractors also believe that private power could jeopardise Turkey's security, for example, in a war. They are fighting to defend the state, says a board member of the Chamber of Electrical Engineers, which has launched a meticulous campaign of legal attacks against all privately financed projects.

Even if state technocrats could be enfranchised today, they would not be able to provide the estimated $40bn needed to meet the government's projected shortfall of 3,300MW additional annual capacity until 2010.

Detractors fail to explain where this funding can be obtained or how sovereignty will not suffer from such a staggering public debt.

In the meantime Turkey is importing electricity to meet its needs. It is ironic that sensitivity toward private power plants in Turkey appears indifferent to increasing reliance on neighbouring countries.

The government's energy programme is stalled by Danistay review of each project, which increases the cost of the projects. The unfinanceable contract terms, while providing little concrete benefit to the state, strain Turkey's international obligations that grant access to independent arbitration for foreign investors.

They will also force the Turkish treasury to provide broader state guarantees for these projects or see them fail. International finance will be much more difficult and expensive to obtain, and the pool of capital available for energy projects will shrink. All these costs will ultimately be borne by the state.

Solutions to the situation are emerging, however. The energy ministry recently announced it would soon propose a constitutional amendment to parliament, and various legislative solutions are also under way.

Any solution should redefine "public service" and "concession" so that the state can enlist private capital and expertise to help meet basic needs it can no longer afford.

The state would still ensure the continuity and quality of public services through a regulatory framework without being limited to providing the services itself.

The solution must also clarify what a concession is, limiting the areas constrained by the concession regime. In the private power area, it is an anomaly that the sale of electricity to the state rather than the consumer should be a "public service".

For projects that remain concessions, the scope of Danistay review should be specified, the time for review limited and international arbitration and other treaty obligations respected.

This overdue solution merely fills a gap left by the constitution. It realigns the concession doctrine to correct only the historical excesses that gave rise to this principle, not to vet all privatisations.

Any predisposition against private power would not be eliminated but would be more transparent.

The irony of the present predicament for private power brings to mind the Turkish proverb: "He who puts a donkey up on the roof must get it down himself."

Those who put the donkey on the roof may have been protecting it, but surely the time has come to put the donkey to work.

** Hugh Verrier is a partner of White & Case LLP, the New York law firm. Zeynep Çakmak is a member of the Ankara Bar, of Çakmak Joint Law Office.*

PROFILE Cumhur Ersümer

Minister charged with a mission

Cumhur Ersümer, the energy minister, is every inch the professional politician. He charges across the country from inaugurations to photo opportunities with visiting dignitaries to meetings in Ankara with business executives anxious to get investment moving.

No ambitious politician wants to be remembered as the man in charge of energy policy when the lights started going out, so Mr Ersümer is concentrating on finding a working solution to the legal problems that are blocking foreign private investment in the energy industry.

The Danistay administrative court has the right to amend infrastructure contracts and forbids recourse to international arbitration. These legal doctrines are preventing large-scale foreign investment.

Mr Ersümer says: "Turkey should make the necessary changes in some of the laws. These would include the law controlling the] Danistay or amending the constitution.

"We are looking for a consensus in parliament, and it looks as if we are going to find this consensus."

Unusually in Turkish politics, energy planning has benefited from a remarkable degree of continuity, even though three coalitions governments have ruled the country since the last elections in 1995.

Mr Ersümer says he is "continuing the previous government's policies" which in turn were following the lead of earlier administrations dating back to the 1980s that attempted to harness private investment, deregulation and privatisation to overcome Turkey's deepening energy crisis.

He says: "Turkey needs to invest $3-5bn every year to increase generation capacity, for maintenance and to stop illegal usage.

"But in previous years, especially in the past five years, the sector did not even receive minimum investments and for this reason we [took] action to attract the foreign and Turkish [private] sector."

He inherited private finance legislation, such as build-operate rules which allow private investors to tender for contracts to build, own and operate power stations built to government specifications.

He is continuing with the previous Islamist-led government's policy of auctioning to private investors the concessions to operate 25 energy distribution networks for 30 years.

The minister laughs at claims by opponents of private investment that surrendering the state's leading role in the economy would allow foreigners to control the strategic energy industry. As if standing on a campaign hustings, he says: "Even the [former Communist countries] have finished privatisation. We are privatising to give priority to the country's and the people's interests, and to solving the workers problems."

John Barham

Cumhur Ersümer: trying to get investment moving.

POLITICS • by Kelly Couturier

Legacy of a weak power base

Deeply divided, the latest ruling coalition has failed to bring financial stability

When he took office last July prime minister Mesut Yilmaz was meant to be the man who would carry Turkey out of a turbulent era.

The previous Islamist-led government, locked for months in a paralysing battle of nerves with the country's secular armed forces, had finally collapsed under the crush of military pressure, leaving behind a deteriorated fiscal situation.

Privatisation had stalled, public spending had ballooned and the 80 per cent inflation rate had started to climb toward triple digits.

Mr Yilmaz's three-party minority coalition, fragile though it seemed on paper, was believed to have enough backing from the generals, the secular bureaucracy and the powerful business community to be able to provide the political stability needed to achieve long-delayed economic reform.

Foreign investors eager to participate in the quickly developing Turkish market also welcomed the new government, hoping it would end the cycle of short-lived coalitions that had made it so difficult to do business in Turkey.

However, this is the fifth coalition government to rule Turkey in the 1990s and, like its predecessors, is made up of ideologically divided parties. Mr Yilmaz's conservative Motherland party must share power with the small centrist Democratic Turkey party as well as the Democratic Left, which is still struggling to shed its statist inheritance.

Such ideological divides have paralysed decision-making, preventing significant economic reform. Privatisation revenues in 1996-97 totalled only $3.36bn. Inflation in the 1990s has never fallen below 60 per cent a year and in 1994 hit a record 149.6 per cent.

Indecision and deteriorating public finances blocked infrastructure investments, particularly in the state-owned energy industry. Last year electricity generating capacity rose little more than 3 per cent. A decade earlier, capacity was expanding three times faster.

Governments even lack enough money to pay for essential maintenance, causing a steep rise in losses which further undermines public finances.

Events over the past month have dampened early optimism about the Yilmaz government's chances to break the cycle of weak, ineffective governments.

A threatening communiqué issued on March 21 by five top generals warning the prime minister not to interfere in the military's fight against religious radicalism was the clearest sign yet that the destabilising tension over political Islam was not yet over.

Last summer the army led a political campaign that brought down Necmettin Erbakan's Islamist coalition in a "soft coup".

The military leadership, which had been counting on Mr Yilmaz to carry out a series of measures designed to counter radical Islamic activity, has begun complaining that the prime minister was slowly going soft on the fight against fundamentalism. Mr Yilmaz, in turn, has become indignant at the charge, publicly urging the military to "mind its own business".

The open row with the top brass dealt a serious blow to the government, already foundering amid growing criticism over its performance.

An economic stability programme designed to bring inflation down to 50 per cent by the end of this year and promising long-delayed tax and social security reform as well as accelerated privatisation efforts – all measures sought by the IMF – has made little impact and looks set to fall far short of its goals as the government partners hesitate to take politically sensitive steps.

"Mr Yilmaz has a record for lassitude and ineffectiveness and his government's record, particularly with the economy which has a three-digit inflation rate but no agreement with the IMF, has done little to change anyone's mind," wrote analysts Bulent Ali Riza and Zeyno Baran in a recent report by the Washington-based Center for Strategic and International Studies.

His critics in the military and elsewhere say the prime minister is already gearing up for early elections – not due before 2000 – and is attempting to attract the Islamist vote. His Motherland Party already includes a strong contingent of Islamic conservatives.

Early elections hardly hold the promise of more stability. The secular centre-left and centre-right remain fragmented and the new Islamist Virtue Party, which regroups many members of Mr Erbakan's Welfare Party banned earlier this year, faces almost certain opposition from the military-backed secular establishment regardless of its showing in the polls.

If the momentum is indeed toward early elections the present government's much ballyhooed "stability programme" looks set to become yet another victim of the political instability the government was supposed to overcome and sorely needed reforms will be delayed once again.

PIPELINES • by Kelly Couturier

A need for slick solutions

Russia and the US are adding to headaches over transporting fuel from Asian fields

Turkey has stepped up its pipeline diplomacy of late, well aware of the importance of the next moves in the Caspian energy "Great Game" – the decisions soon to be taken as to how oil and gas from the Caucasus and Central Asia will be explored, processed and transported.

With the BP-led consortium developing three Azerbaijani offshore oilfields expected to choose a main export route before the end of the year, Turkish officials from the president's office down have begun pushing hard for the building of a pipeline that would carry Caspian oil from Baku in Azerbaijan via Georgia down to Turkey's Mediterranean port of Ceyhan.

Looking to rally support for the Baku-Ceyhan line, Turkey gathered foreign ministers and other officials from Azerbaijan, Turkmenistan, Kazakhstan and Georgia in Istanbul early this month.

The outcome was less than Ankara had hoped for, with participants stopping short of a clear endorsement. But the following week brought brighter news.

Prime minister Mesut Yilmaz visited Tbilisi to sign an energy co-operation deal with Georgian President Eduard Shevardnadze, who pledged his commitment to the project.

Construction of the 1,730-metre export pipeline, expected ultimately to transport up to 45m tonnes of crude a year, would assure a lasting influential role for Turkey in the region, where it already has cultural and growing trade ties. With Baku-Ceyhan, Turkey would be transformed into a leading outlet for Caspian oil as well as a counter to the Russian presence in the region.

"This is a turning point for Turkey," says deputy undersecretary Yaman Baskut, the foreign ministry's point man on pipeline policy.

The United States, eager to prevent Russian or Iranian dominance in the region, has thrown its weight behind the Baku-Ceyhan project as part of a "Eurasian transport corridor" for Caspian oil and gas headed for Western markets. Azerbaijani President Haydar Aliyev has also expressed his support.

But Russia continues to oppose the route despite overtures from Turkey to take part in the Baku-Ceyhan project, preferring instead the so-called northern route for Caspian Sea oil, a pipeline from Baku to the Russian Black Sea port of Novorossisk.

Oil is already being pumped to the Russian port from Baku as part of the Azerbaijan International Operating Company's "early oil" production. Baku-Ceyhan also faces opposition from analysts, who say it is too expensive, especially in view of the plunging price of oil compared with other options, with an estimated cost between $2.5 and $3bn.

The cost put on building a Baku-Novorossisk line is $2bn and another option, building an upgraded line from Baku to the Georgian port of Supsa, which will also receive some "early oil" output, is even cheaper with an estimated price of $1.5bn.

Turkey counters that the Russian or Geogian export options would involve an increase of tanker traffic through the Bosphorus Straits which bisect Istanbul and pose an environmental hazard. Under the 1936 Treaty of Montreux ships are assured free and secure passage through the 27km straits, but many analysts agree that a heavy increase in tanker traffic would pose a significant risk to the city's 8m people.

Safety-related costs such as requiring mandatory insurance or double-hulled tankers are likely be added to the price of shipping oil through the straits, making the Novorossisk and Supsa options more expensive, Mr Baskut claims.

To make the Baku-Ceyhan route more commercially attractive, analysts say Turkey could offer low tariffs and tax concessions and reduce financing costs by providing treasury guarantees. Mr Baskut says Ankara has not yet addressed regulatory or financing matters as the project is still in the feasibility study stage.

Complicating Ankara's pipeline politics, and its rivalry with Russia over Baku-Ceyhan, is Turkey's heavy dependence on Russian natural gas and vital need to import more gas to ensure its continued rapid development. Sixty per cent of Turkey's annual gas consumption rate of 10bn cubic metres is now provided by Russia through a pipeline by way of Bulgaria.

Moreover, Turkey – which predicts its gas demand will reach 52bn cubic metres by 2010 – has concluded two recent agreements with Russia, calling for an increase in deliveries from the existing pipeline as well as construction of a new gas pipeline under the Black Sea which would deliver Russian gas to the Turkish port of Samsun.

Some analysts complain that Ankara's championing of the joint Black Sea pipeline project with Russia – particularly, according to one senior government official, by a grouping of politicians and big businesses with vested interests – is loosening its resolve to stand up to Moscow and fight for Baku-Ceyhan.

The new gas projects with Russia notwithstanding, officials in Ankara say they are working on ways to diversify Turkey's sources of natural gas and are considering alternative plans to acquire natural gas from Turkmenistan. These are a transCaspian gas pipeline that would run parallel to the Baku-Ceyhan oil line – the Eurasian corridor concept being pushed by the Americans – or a pipeline from Turkmenistan through Iran, a project Shell is studying but Washington vigorously opposes. Ankara now prefers the trans-Caspian alternative for its economies of scale, according to Mr Baskut, but he says disputes among riparian states over Caspian Sea rights remain an obstacle.

Turkey in the meantime continues construction on a pipeline designed to carry gas from the Iranian border as part of an agreement with Turkmenistan and Iran last May that calls for the delivery of up to 30bn cubic metres of Turkmen gas through Iran.

Prices fall ahead of FOMC meeting

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

Prices drifted lower yesterday, with many investors on the sidelines in advance of today's Federal Open Market Committee meeting, and US payroll data due on Friday.

The latest housing data in the US knocked already weak European markets, and prices fell across the board.

UK GILTS opened higher, supported by the continuing rally in sterling, but trended lower for most of the day. There were few surprises in money supply and consumer credit data. The latter showed the lowest consumer borrowing since last April, but some analysts had hoped it would be weaker still.

Adam Chester, economist at the Halifax, said: "The strength of sterling improves the case for saying interest rates may not have to rise from these levels."

The yield curve flattened somewhat, as shorter maturities were boosted by the impact of sterling, while longer-dated gilts faced some profit-taking.

The June 10-year future edged $\frac{1}{32}$ lower to $107\frac{27}{32}$, having been $\frac{5}{32}$ higher in the morning. Trading was very light, with turnover of just 39,000 contracts. In the cash market, the yield spread over bunds narrowed two basis points to 112 points.

GERMAN BUNDS also came under pressure, edging lower in the afternoon as a result of a weaker Wall Street. There was some disruption in the market, with some early problems in the electronic trading system of the Deutsche Terminbörse.

The June contract in London fell 0.28 to settle at 107.2, trading within a narrow range throughout the day on volumes of just less than 100,000 contracts.

There was some downward pressure on prices, following concerns after the Bundesbank's apparently reluctant commitment to the broad European monetary union membership.

ITALIAN BTPs underperformed the German market, with the June future settling 0.45 lower at 119.08.

However, David Brown, European economist at Bear Stearns, said: "There may be some extra dancing in the street for BTPs near term, not just because of the Bundesbank's grudging nod to Italy's first wave Emu entry next year, but because there will be intense speculation about a Bank of Italy rate cut as early as this week."

US TREASURIES were sluggish in morning trade ahead of today's FOMC meeting. By midday the benchmark 30-year bond had lost $\frac{1}{32}$ to $10\frac{5}{32}$, sending the yield up to 5.975 per cent.

Among shorter-term issues the two-year note fell $\frac{1}{32}$ to $99\frac{27}{32}$, yielding 5.651 per cent while the 10-year note was down $\frac{3}{32}$ to $98\frac{1}{32}$, yielding 5.708 per cent.

Few analysts expect the Federal Reserve to change interest rates at today's meeting. There is growing tension in the market, though, over Fed action later in the year.

"There's a little concern that the Fed might go back to a tightening bias, even though we won't know that until six weeks from now," said Richard Gilhooly, international bond strategist at Paribas Capital Markets.

In December the FOMC changed to a "neutral" bias, largely on the expectation that the economy would show signs of slowing.

The balance of economic data since then, however, has shown little evidence of an Asian-induced slowdown. Consumer spending, labour markets and housing statistics have all remained at strong levels.

Adding to the evidence of strength was a morning report on new housing sales for February.

New sales reached a record, with single family transactions up 4.8 per cent to a seasonally adjusted annual rate of 893,000. The latest housing figure was higher than expected by analysts.

Finance for Brazilian telephony consortium

By Jonathan Wheatley in São Paulo

A consortium led by BellSouth International of the US and Banco Safra of Brazil has raised US$1.75bn through a floating-rate note issue to finance cellular telephone services in the city of São Paulo.

The operation is the biggest of its kind by a Brazilian issuer since the Asian crisis and will be seen as a show of confidence in Brazil's economy. It was led by J. P. Morgan and Merrill Lynch and syndicated among 20 international and domestic finance houses.

The notes have maturities of two and three years and yield Libor plus 400 basis points for the first three months, after which they are linked to Brazil 01 federal government bonds.

Otávio Castello Branco, managing director investment banking at J. P. Morgan in Brazil, said: "The issue shows confidence in the potential of cellular services in São Paulo and in the Brazilian economy, despite the Asian crisis. Investors are beginning to come back to Brazil."

Proceeds will be used by BCP Telecomunicações whose other shareholders are Brazilian groups O Estado de São Paulo, RBS and Arbi, and Splice of the US – to finance cellular services due to start in May under a concession won last year as part of the privatisation of Brazilian telephony.

BCP paid R$2.65bn (US$2.33bn) for the concession to provide B-band cellular services in the São Paulo metropolitan area, to compete with existing A-band services offered by the public sector.

Scudder fund finds value in Middle East

By Roula Khalaf, Middle East Correspondent

Joyce Cornell, who manages $1bn in emerging markets assets for Scudder Kemper Investments of the US, is the toast of emerging markets in the Middle East and North Africa.

When the world was bracing itself for war in Iraq last month, she sent her Middle East analyst on an investor trip to neighbouring Kuwait.

With a third of her equity portfolio already allocated to the region – making her one of the biggest portfolio investors there – Ms Cornell is on a constant look-out for more exotic stocks.

She says she worries about wars and political turbulence. "There's plenty of risk [in the region]. It's real and it could damage investment. But the challenge is to figure out if you're paid enough to take it." For her, the region is "one of the best untold stories – mis-priced in investors' favour".

Avoiding the Asian crisis was Ms Cornell's biggest coup, according to Morningstar, the US fund research company. In part due to her discoveries in the Middle East, one of the funds she manages – the Scudder Emerging Markets Growth Fund – was up 3.5 per cent last year, outperforming the Morgan Stanley index by more than 18 per cent.

"In Asia, before the crisis, you had growth flattening and high valuations, so we were out of most markets two years ago," she says. "In the Middle East, you could buy quality companies for a good price: you are paid to take risk."

The Middle East bucked the emerging markets trend last year, with Egypt rising almost 10 per cent, Morocco up nearly 50 per cent and Oman gaining as much as 140 per cent. In Egypt, share prices now average just over 10 times expected 1998 earnings, while in Jordan stocks can be bought at nine times expected earnings.

This year got off to a bumpy start for most of the region's markets, with only Morocco's rising more than 8 per cent, but Ms Cornell is in this for the long haul. She began to see commitment to economic reforms in several countries four years ago, well ahead of most investors.

Countries such as Egypt, Morocco, Jordan and Tunisia were reforming their economies, reining in inflation, and controlling spending and foreign indebtedness.

"It does not matter to us what the starting point is, how small the stock markets are, that there is no transparency," says Ms Cornell. "Economies are changing, you can buy stocks cheaply – so it is an opportunity."

No market is off-limits, and Ms Cornell is now looking at strife-torn Algeria. After four years of macro-economic adjustment, Algeria wants to privatise loss-making state enterprises and Ms Cornell says that, at the right price, even Algeria is a risk worth taking.

"She is willing to take big bets when she's got conviction," notes Bridget Hughes, an analyst at Morningstar. "She had 11 per cent of the fund in Egypt at a time when Cairo was not yet included in any popular index."

Tight pricing on Hungary issue

INTERNATIONAL BONDS

By Kevin Done and Samer Iskandar

Hungary yesterday succeeded in pricing its five-year $300m eurobond relatively tightly, to yield 81 basis points over US Treasury notes.

The deal, lead-managed by ABN Amro and Salomon Smith Barney, was the country's first borrowing in dollars since 1994 and follows a five-year, DM750m floating-rate bond issue earlier this year.

The pricing highlights an improvement in the margins on Hungarian debt since the D-Mark issue, and reflects expectations of an upgrade in the country's credit rating later this year.

Hungary is currently rated at the lowest investment grade of BBB- by Standard & Poor's and the equivalent Baa3 by Moody's.

Moody's, however, has recently placed Hungary's rating on review for a possible upgrade, reflecting the improvement achieved in lowering the current account deficit, and the more rapid progress achieved in reform and restructuring in Hungary than elsewhere in central and eastern Europe.

The five-year bond is the first triple-B rated sovereign bond in dollars issued this year and the first deal from central Europe.

Charles Berman, managing director of fixed income capital markets at Salomon, said emerging markets were "only just getting back on track" after the financial turmoil in Asia.

The sterling sector continued to see strong demand, especially for short-dated issues, after the cancellation in the 1998-99 budget of gilt issues of less than three years.

The WORLD BANK raised £500m through a $2\frac{1}{4}$-year issue. Barclays Capital, lead manager, said the inversion of the UK yield curve had helped. "The issue yields 23¼ basis points more than German federal debt," said an official. "There is no other European market offering such spreads."

ONTARIO HYDRO will today price the first Canadian dollar-denominated global issue in more than two years – C$750m of 10-year bonds. The lead managers are CIBC Wood Gundy and Merrill Lynch.

FANNIE MAE, the largest US mortgage lender, will tomorrow price its latest offering of benchmark notes: $4bn of five-year paper. The issue is being lead-managed by Bear Stearns, J. P. Morgan and Merrill Lynch.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
National Bank of Hungary	300	6.50	99.707R	Apr 2003	0.30R	+81(6⅞%Mar03)	ABN Amro/Salomon SB
Banco HSBC Bamerindus•	150	8.25	100.125	Apr 1999	undisci	–	HSBC Markets
D-MARKS							
DSL Finance	500	4.75	99.697R	Apr 2008	0.30R	+10(7¾%Jan08)	ING Barings
STERLING							
World Bank	500	6.87(a)	99.955	Jul 2000	0.10	+24(8%Dec00)	Barclays Capital
Statoil	125	7.00	99.824R	Apr 2005	0.125R	+43(8½%Dec05)	Lehman Brothers
World Bank(a)•	50	6.152	100.00	Apr 2001	1.128		IBJ International
ITALIAN LIRE							
Prada Luxembourg‡	250bn	(c)	99.60R	May 2003	0.25R		IMI Bank Luxembourg
SunAmerica Inst Funding(d)‡	150	(d1)	99.375R	Apr 2013	0.375R		Morgan Stanley DW
CANADIAN DOLLARS							
Ontario Hydro	750	(b)•	(b)R	Jun 2008	0.35R	+18-19(6¾%06)	CIBC WG/Merrill Lynch
KfW International Finance	100	5.00(a)	99.20R	Oct 2002	0.225R	flat(5¼%-02)	CIBC Wood Gundy
Business Dev Bk of Canada	75	5.00	99.4975R	May 2001	0.1875R	flat(7¼%-01)	ScotiaMcLeod

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Quarterly coupons, long 1st. b) Priced today. c) 6-mth Libor +30bp. d) Callable on 29/4/02 at par. d1) 8.25% to Apr 02, then 15% – 2 × 12-mth Libor. e) Short 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 30	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/08	7.000	103.8034	5.01	–0.05	–	–0.19	–1.76
	10/07	10.000	130.4280	5.78	–0.06	–0.01	–0.19	–2.28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sources: Interactive Data/FT Information; London closing, *New York mid-day. Yields: Local market standard/annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Mar 30	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.78	+0.83	+0.06	New Zealand	7.03	+2.10	+1.33
Austria	5.00	+0.07	–0.70	Norway	5.21	+0.28	–0.49
Belgium	5.02	+0.09	–0.68	Portugal	5.04	+0.11	–0.66
Canada	5.37	+0.44	–0.33	Spain	5.07	+0.14	–0.63
Denmark	5.14	+0.21	–0.56	Sweden	5.28	+0.35	–0.42
Finland	4.89	–0.04	–0.81	Switzerland	2.90	–2.03	–2.80
France	4.95	+0.02	–0.75	UK	5.95	+1.02	+0.25
Germany	4.93	–	–0.77	US	5.70	+0.77	–
Ireland	5.05	+0.12	–0.65	ECU	4.99	+0.06	–0.71
Italy	5.13	+0.20	–0.57				
Japan	1.66	–3.27	–4.04				
Netherlands	4.90	–0.03	–0.80				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Mar 30	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	96.3382	8.11	+0.02	–0.43	+2.44
Poland	07/04	7.125	BBB-	101.7686	6.77	+0.17	–0.62	+1.09
Russia	06/07	10.000	BB-	98.1000	10.57	+0.02	–0.52	+4.97
LATIN AMERICA								
Argentina	09/27	9.750	BB	99.2500	9.82	+0.05	–0.36	+3.86
Brazil	05/27	10.125	BB-	98.8800	10.14	–	–0.35	+4.18
Mexico	09/26	11.500	BB	122.2500	9.25	+0.05	–0.16	+3.30
ASIA								
China	07/06	7.750	BBB+	103.7206	7.13	+0.03	–0.04	+1.44
Philippines	10/16	8.750	BB+	98.6323	9.13	+0.02	–0.13	+3.32
Thailand	04/07	7.750	BBB-	95.3571	8.50	–0.16	–0.36	+2.80
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.6250	7.81	+0.07	+0.06	+2.18
South Africa	10/06	8.375	BB+	102.2397	7.99	+0.09	+0.08	+2.30
Turkey	09/07	10.000	B	101.9956	9.65	+0.11	–0.44	+3.95
BRADY BONDS								
Argentina	03/23	5.500	BB	76.5000	8.29	+0.04	+0.02	+2.38
Brazil	04/14	4.500	BB-	84.3800	9.25	+0.07	–0.46	+3.47
Mexico	12/19	6.250	BB	83.0600	7.69	–0.06	–0.17	+1.84
Venezuela	03/20	6.750	B+	86.8300	8.06	+0.01	–0.28	+2.19

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	104.06	103.60	–0.45	104.09	103.55	5,099	114,184
Sep	103.54	103.16	–0.45	103.64	103.25	58	156

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Sep	Puts May	Puts Jun	Puts Sep
102	1.69	1.82	1.87	0.09	0.23	0.73
103	0.88	1.08	1.30	0.26	0.49	1.14
104	0.33	0.55	0.88	0.72	0.94	1.69
105	0.08	0.22	0.53	1.48	1.82	2.35

Est. vol. total, Calls 6,054 Puts 12,017. Previous day's open int., Calls 47,123 Puts 55,045

Germany

NOTIONAL GERMAN BOND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107.50	107.20	–0.28	107.70	107.13	100590	182019
Sep	-	106.84	–0.28	-	-	0	506

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
10700	0.67	0.81	0.82	1.12	0.37	0.61	0.96	1.28
10750	0.32	0.56	0.59	0.90	0.62	0.86	1.25	1.56
10800	0.16	0.35	0.41	0.69	0.96	1.15	1.57	1.85

Est. vol. total, Calls 18946 Puts 22061. Previous day's open int., Calls 164493 Puts 182065

NOTIONAL GERMAN BOND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105.23	104.99	–0.20	105.26	104.95	112,943	199,743
Sep	–	105.04	–0.05	–	–	–	5,285

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	104.99	-0.17	-	-	0	684
Sep	-	104.84	-0.17	-	-	0	0

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	119.70	119.08	–0.45	119.74	119.06	49753	136261
Sep	-	119.42	-0.45	-	-	0	9021

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls May	Calls Jun	Puts May	Puts Jun
11900	0.49	0.82	0.41	0.74
11950	0.27	0.57	0.69	0.99
12000	0.13	0.37	1.05	1.29

Est. vol. total, Calls 615 Puts 1045. Previous day's open int., Calls 59116 Puts 127438

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109.27	108.82	–0.34	109.33	108.73	78,131	103,568
Sep	–	108.45	–0.36	–	–	–	–

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	102.40	102.36	+0.04	102.43	102.30	1246	10782
Sep	-	103.51	+0.04	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108-02	107-27	-0-02	108-07	107-23	39551	216997
Sep	-	107.84	-0.07	-	-	0	0

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls May	Calls Jun	Puts May	Puts Jun
107	1-07	-	0-17	0-35
108	0-33	0-53	0-43	0-63
109	0-13	0-28	1-23	1-38

Est. vol. total, Calls n/a Puts n/a. Previous day's open int., Calls n/a Puts n/a

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	119-29	119-28	–0-05	120-11	119-29	367,206	669,408
Sep	119-24	119-20	–0-04	119-31	119-18	3,264	98,488
Dec	119-13	119-12	–0-02	119-13	119-12	17	17,285

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	129.94	129.97	-	129.96	129.90	680	n/a
Sep	129.88	129.87	-	129.86	129.86	15	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	103.48	103.20	–0.30	103.54	103.20	55	4,999

US CORPORATE BONDS

Mar 27	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	103.9405	6.17	+0.01	+0.69	+0.45
NY Tel	08/25	7.00	A+	98.9688	7.08	+0.01	+0.03	+1.15
CWE	05/08	9.00	BBB+	115.3750	6.87	+0.01	–0.14	+1.33
FINANCIALS								
GECC	05/07	8.75	AAA	117.2063	6.24	+0.01	+0.04	+0.60
Banc One	05/02	7.25	A+	103.5531	6.29	+0.02	+0.03	+0.60
US West	01/02	7.20	BBB+	104.9766	6.54	+0.02	+0.08	+0.89
[illegible]								
WMX Tech	04/99	6.25	BBB	99.9764	6.27	+0.01	–0.03	+0.27
Wal Mart	05/02	8.75	AA	102.0226	6.18	+0.02	+0.19	+0.49
Dayton Hud	08/21	9.70	BBB+	131.0881	6.97	+0.02	+0.02	+1.02
AGENCIES								
FHLMC	04/07	7.14	N/A	107.7524	6.01	+0.02	+0.01	+0.27
SLMA	03/00	7.50	N/A	103.0440	5.81	+0.03	+0.05	+0.18
FNMA	02/18	8.85	N/A	130.1479	6.28	+0.02	–0.04	+0.29
FFCB	05/05	8.65	N/A	115.2072	5.94	+0.02	–0.05	+0.20
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.0000	9.00	–		
AK Stl	12/01	8.13	BB+	107.2500	6.85	–		
Pecalis	08/04	10.75	B-	99.7500	9.00	–		

NY closing. Standard & Poor's ratings. Yields: local market standard. Source: Interactive Data/FT Information

US INTEREST RATES

Latest			Treasury Bills and Bond Yields			
Prime rate	8½		One month	[illegible]	Two year	5.63
Broker loan rate	7⅞		Two month	[illegible]	Three year	5.64
Fed funds	5½		Three month	5.01	Five year	5.64
Fed funds at intervention	–		Six month	5.09	10 year	5.68
			One year	5.44	30 year	5.97

INTERNATIONAL BONDS

[illegible]

Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

	Mar 30	Mar 27	Mar 26	Mar 25	Mar 24	Yr ago	High*	Low*
Govt. Secs. (UK)	104.70	104.12	104.27	104.13	104.63	94.70	104.79	93.31
Fixed Interest	140.83	140.74	140.82	141.01	140.61	117.85	141.01	115.32

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Dollar breaks though D-Mark band

MARKETS REPORT

By Richard Adams

The US dollar cracked through the ceiling of the range it has been trading in against the D-Mark for the past three months, during trading on the currency markets in Europe yesterday.

The dollar closed at DM1.8446, a rise of over 1.5 pfennig from its rate at the end of trading hours in Europe on Friday.

Some traders saw the D-Mark's weakness as a delayed reaction to the Bundesbank's report on European economic and monetary union issued on Friday, which was critical of the convergence efforts by Italy and Belgium.

The dollar's strength saw it climb out of the DM1.800 to DM1.835 trading range it has moved in within the past three months.

The dollar also advanced higher against the yen, as traders were said to be less impressed by the threat of intervention by Japanese authorities as the end of the fiscal year approaches.

The dollar closed in Europe at Y132.14, with analysts predicting a swift move towards Y134.

Sterling gained on the back of the dollar's rise, sending the pound to a fresh nine-year high against the German currency. Sterling gained 1.8 pfennigs to end trading in Europe at DM3.094.

Sterling also made a clean break against the yen – up by Y2.3 from Friday to Y221.65 – but weakened against the dollar by half a cent to $1.6774.

The D-Mark touched a five-month high against the Swiss franc at SFr0.8235 (82.35 centimes), following a flight in search of higher yields.

■ Sterling's seemingly boundless energy took it to another recent peak against the D-Mark yesterday. It was last higher at the close of trading on 31 July 1989, when it was worth DM3.11.

Despite its fall against the dollar, sterling also reached a nine-year high against its trade-weighted index when it closed at 108.7, having touched 108.9 during the day's trading.

Part of the strength of sterling has been borrowed from the buoyant dollar, but there were also reports of solid sterling demand from holders of Swiss francs.

A reduction in concern over the start of the European single currency has seen a movement out of Swiss francs. "Money is coming out of the franc and into D-Marks, dollars and above all pounds, which have higher yields," one Swiss dealer said yesterday.

The remorseless rise of sterling may prompt Gordon Brown, the chancellor, to try to "talk down" the currency when he appears before the Treasury select committee today. But Kevin Gardiner, UK economist at Morgan Stanley, said: "I don't expect him to do anything, apart from saying he wants a stable currency."

■ Whatever the fundamental reasons for the pound's strength, technical analysts are still confident that the charts look good for sterling. Patricia Elbaz at MMS said a sustained move above DM3.10 would call for sterling gains to the DM3.15 level, last seen in May 1989.

Stewart Newnham at First Chicago NBD in London shows Sterling's trade-weighted index closing yesterday at the December 1988 high just above 108.

Mr Newnham points out that last year, when sterling peaked in July, sterling was unable to break resistance above 105, which was the previous 1990 high.

■ A weak compromise over who should become the first head of the European Central Bank would get monetary union off to a bad start, Peter Schmidhuber, the Bundesbank board member said yesterday.

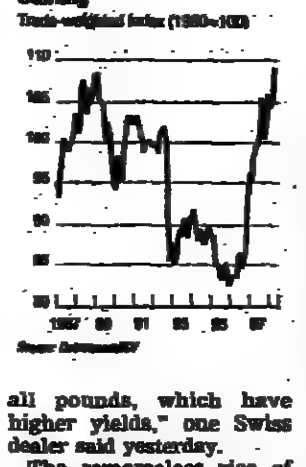
"A feeble compromise with respect to the person chosen as president would ... be a bad start for economic and monetary union, which could have not only political but also economic consequences," Mr Schmidhuber warned.

Wim Duisenberg, the head of the European Monetary Institute, is still favourite to be head of the ECB.

"The danger exists that [the presidency] may get drawn into other personnel disputes regarding the choice of the remaining directorate members," he said.

Sterling

Trade-weighted index (1990=100)



Source: Datastream/ICV

■ POUND IN NEW YORK

Mar 30	—Latest—	— Prev. close —
£ spot	1.6775	1.6836
1 mth	1.6750	1.6805
3 mth	1.6700	1.6753
1 yr	1.6515	[illegible]

■ OTHER CURRENCIES

Mar 30	£	$
Czech Rep.	[illegible] - 56.7265	33.7820 - [illegible]
Hungary	352.882 - 357.137	212.810 - 212.880
[illegible]	[illegible]	[illegible]
Kuwait	0.5122 - 0.5126	0.3054 - 0.3056
Peru	4.7180 - 4.7255	2.8145 - 2.8165
Poland	5.7546 - 5.7641	3.4316 - 3.4355
Russia	[illegible] - 10.2173	[illegible]
UAE	6.1580 - 6.1626	3.6725 - 3.6730

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
9225	0.25	0.39	0.54	0.02	0.06	0.08
9250	0.08	0.21	0.36	0.10	0.13	0.15
9275	0.01	0.09	0.22	0.28	0.25	0.26

Est. vol. total, Calls 6062 Puts 5940. Previous day's open int., Calls 268931 Puts 216179

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association

* In administration

Oil slides as Opec meets in Vienna

MARKETS REPORT

By Gary Mead and Kenneth Gooding

Oil prices slipped in late trading yesterday, as members of the Organisation of Petroleum Exporting Countries met in Vienna to ratify last week's international agreement to cut production.

The market seemed sceptical that the deal, struck in Riyadh last week between Opec and non-Opec producers, would be enough to halt the 40 per cent price slide since October.

Analysts said international inventories were so large that prices would remain fragile for several months as the northern hemisphere moved into spring and warmer weather.

In an oil market overview published yesterday, GNI analysts said: "While the production cut is of course welcome and could stabilise oil prices for a time ($18.50 is a possible maximum for Brent in Q2 and Q3), it is not enough *per se* to turn the market truly bullish during this weak demand period."

GNI put OECD industry stocks at the end of January at more than 2.5bn barrels, 99m barrels more than at the same time a year ago, and 142m barrels more than in January 1996. "We believe Opec alone should cut 2m b/d, while others such as Norway, Russia and Mexico ought to remove another 1m b/d between them," it added.

Obaid bin Saif al-Nasseri, Opec president, said before yesterday's meeting that it would ratify the Riyadh agreement to curtail global production from current output levels – not official quotas – with effect from April 1 until the end of the year.

Some Opec members pledged in Riyadh to reduce production by 1.245m b/d; non-Opec countries have said they will cut 270,000 b/d.

The benchmark Brent crude for May delivery slid 60 cents through the day on London's International Petroleum Exchange, and stood at $14.84 a barrel in late trading compared with Friday's close of $15.40.

There was rather greater activity than of late in coffee and cocoa futures on the London International Financial Futures Exchange.

May cocoa closed down £21 at £1,053 a tonne, hit by recent heavy sales from Ghana. May coffee improved by $70 a tonne to close at $1,820, a 15-week high, as investment funds returned in force. Traders said there was little fundamental news driving the market.

Gold remained above $300 a troy ounce, having bounced back last week from the $286 to which it dropped immediately after Belgian's central bank announced a week ago that it had sold more gold from its reserves.

Dealers said market sentiment had changed. "A move to the $310-$320 range now appears to be on the cards over the next few weeks," said Deutsche Morgan Grenfell in its daily Metal Window report. Gold was "fixed" in London at $301.85 yesterday afternoon.

DMG analysts Wiktor Bielski and Andrew Carter suggest US investment funds, responsible for driving down gold during the past year, appear to have given up their short positions and are now "almost square overall for the first time in nearly two years".

Some producers have also shifted from selling to buying. WMC bought back 3m ounces and TVX 2.5m ounces while unwinding hedging positions recently.

TOBACCO SLOWDOWN IN ASIA AND US LEGAL SETTLEMENTS PUT PRESSURE ON PRICES

Tough year ahead for Zimbabwe growers

By Tony Hawkins in Harare

Zimbabwe tobacco growers are expected to face lower prices when Harare's flue-cured tobacco auctions start today. The drop reflects the economic slowdown in Asia and the impact of the $31bn payout by US tobacco groups in legal settlements.

While global tobacco supply is forecast to be lower this year, demand has weakened significantly. Zimbabwe tobacco production fell well short of target in 1996-97 because of excessive rains, and the country is carrying 8m kg more in stocks than it was a year ago.

Heavy rains in the north of the country mean production will fall 25m kg short of the targeted 235m kg, but it will be 15 per cent higher than last year's 210m kg.

Tobacco exports are crucial to Zimbabwe's economic stabilisation. The crop accounts for one-quarter of the country's exports and could be more important this year because of problems experienced by exporters of other commodities, such as gold, ferrochrome, nickel and asbestos.

Industry sources predict prices will fall about 10 per cent to 310 US cents a kg from 235 cents last year. The crop, worth US$435m last year, is currently expected to be only modestly higher at between $445m and $450m. Some 10 per cent of this is appropriated by the state in the form of an export tax on tobacco.

Growers are hoping for something of a devaluation windfall following the collapse of the Zimbabwe dollar – from Z$12.6 to the US dollar when sales ended in October, to a low of Z$19 in January.

However, in the past two months the exchange rate has appreciated 17 per cent to Z$16.1 to the US dollar. If this is maintained during the sales season through to October, the local currency price would be close to Z$34 a kg – an increase of 25 per cent on last year.

This is not as good as it appears because since last March production costs are estimated to have risen 35 per cent, to Z$64,000 a hectare of tobacco from Z$46,000. But growers should be better off because of a 20 per cent improvement in yields.

However, relief could be shortlived. Costs are expected to rise even more rapidly over the next 12 months and the main inflationary impact of devaluation will not be felt until next season.

Fuel prices are about to increase 30 per cent; electricity prices, which affect irrigation costs, will rise at least 30 per cent in July; and with the Zimbabwe dollar likely to resume its slide in the final months of the year, the cost of imported items will rise even further.

Wages are expected to rise by at least one-third before the next season starts. Indeed, with the labour unions in militant mood and consumer inflation forecast at more than 25 per cent in 1998, this estimate could prove to be on the low side.

Other uncertainties include the duration and severity of the Asian setback. Almost one-third of US tobacco business is with Asia and the more serious the slowdown, the greater the knock-on effect will be on leaf exporters such as Zimbabwe.

Further substantial legal settlements arising from court actions brought by people suffering from smoking-related diseases will exert further downward pressure on prices.

In this situation, manufacturers are looking for cheaper sources of supply, making low-cost peasant production more attractive than the large-scale commercial production that accounts for some 90 per cent of output.

To cap it all, commercial growers face uncertainties created by President Robert Mugabe's land resettlement programme.

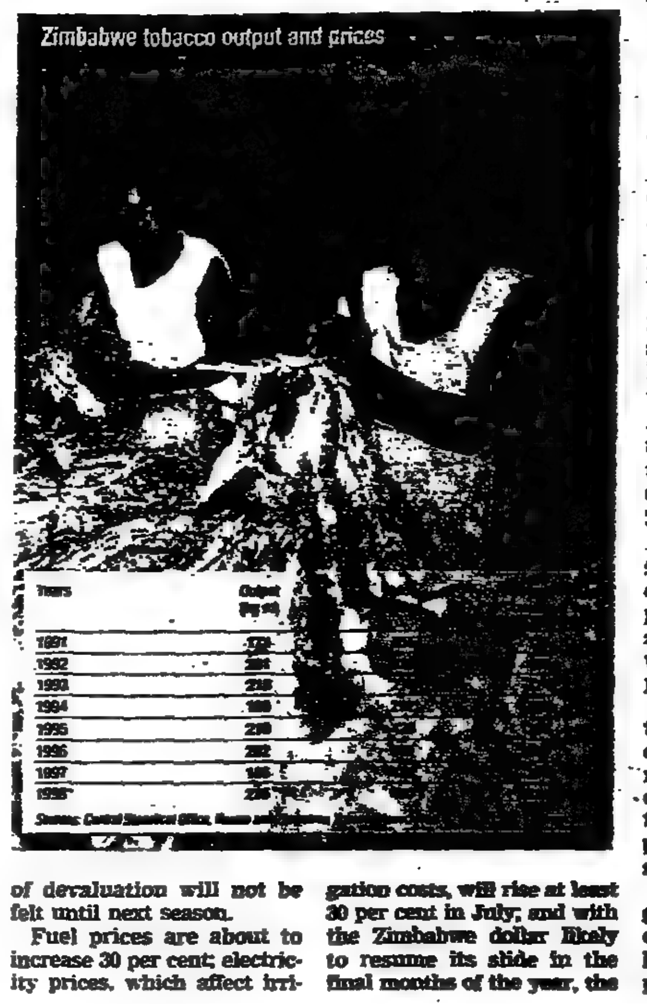
When the first list of farms to be compulsorily acquired by the state was published last November, the Commercial Farmers Union (CFU) estimated that 45 per cent of tobacco production was at risk and that exports might fall by more than 40 per cent.

Since then, the situation has been clarified, and 800 farms have been removed from the initial list of 1,470. A significant number of these will be tobacco farms, and the impact of the resettlement programme on production and exports is likely to be considerably less than the worst-case scenario outlined by the CFU five months ago.

However, radical land reform of this nature is certain to leave its mark on the tobacco sector.

Efforts to rebuild confidence by the delistings, the promise to pay full compensation for resettlement and the announcement that the reforms will be phased in over five to 10 years will not erase the memory of last year's events.

To make matters worse, there will be no investment and development by existing owners of those 850 farms remaining on the list.



Polish fruit juice producers head for market

By Christopher Bobinski in Warsaw

Fast growing demand for fruit juice in Poland has favoured Hortex and Agros, the country's leading fruit and vegetable processors, while planned stock market flotations could see more than 80 per cent of Poland's juice coming from Warsaw bourse listed companies within the next year.

Juice sales began climbing at the beginning of the 1990s when processors brought in eye-catching cardboard packaging and orange concentrate imports were allowed.

Suddenly, orange juice which had been seen as a luxury, often on sale solely in hard currency shops, became generally available. Growth in demand for juice has subsequently been fuelled by rising incomes and greater awareness of the need for a healthy diet.

The expanding market also saw consumers staying loyal to locally grown fruits, such as apples and blackcurrants and the processors benefited from their traditional links with local fruit growers in what is one of the world's largest apple producing countries.

Last year, Poland produced around 2.9m tonnes of fruit, of which 1.9m tonnes were apples. Concentrates from local fruit went into half the 500,000 tonnes of fruit juices produced last year, a 23 per cent increase on 1996. However, imports of mainly orange concentrates also grew from 37,800 tonnes in 1996 to 42,000 tonnes last year as imported oranges and locally grown apple and blackcurrants dominated the Polish fruit juice market.

According to Marek Tarnowski, head of marketing at Hortex, which sold more than $100m worth of fruit juices at home last year, the market will grow by 15 to 20 per cent a year until 2002.

The growth follows a 10-fold increase in Poland's juice consumption from an annual 1.3 litres a head in 1993 to an estimated 13 litres last year. This is still far short of the European Union juice consumption average of around 35 litres per head. Family budget spending on juice in Poland at 4 per cent of food costs is still lower than the 16 per cent average in western Europe.

Hortex, which has around 40 per cent of juice market share is followed by Agros, a listed processor whose share exceeds 25 per cent, in a market from which foreign competitors are still absent.

Coca-Cola's "Cappy" orange juice appears to be struggling to gain a foothold while Eckes Granini, the German juice company that purchased the local Aronia producer in 1996, has yet to make an impact.

Hortex last year received a joint investment of $28m from the European Bank for Reconstruction and Development and the Bank of America, and a commitment for a further $26m by the end of next year.

The move, which gave both institutions a 41 per cent stake in the company, puts Hortex on course for a stock exchange listing in 1999.

This is when Tymbark, a small but ambitious regional fruit juice producer from Nowy Sacz in southern Poland is also expected to float its equity.

Tymbark, which is controlled by Progress, a private investment fund managed by the Austrian Raiffeisen Bank, claimed an 8 per cent market share in 1996 and plans to increase this to 12 per cent next year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1431-32	1456-57
Previous	[illegible]	[illegible]
High/low	[illegible]	[illegible]

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Latest price	Day's change	High	Low	Vol	Open Int
Apr	301.8	-1.5	303.5	301.5	28,499	11,436
Jun	304.2	-0.8	305.6	303.6	45,339	75,280
Aug	306.4	-0.8	307.4	[illegible]	1,434	7,361

[illegible]

ENERGY

[illegible]

PRECIOUS METALS

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Latest price	Day's change	High	Low	Vol	Open int
May	72.50	-0.25	73.50	72.50	78	2,205
Jul	74.25	-	75.60	74.25	138	1,310
Sep	74.25	-	-	-	-	134

[illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Latest price	Day's change	High	Low	Vol	Open int
May	1053	-21	1077	1051	1,579	26,922
Jul	1066	-22	1089	1066	1,139	17,535
Sep	1085	-19	1101	1095	460	26,654

[illegible]

PULP AND PAPER

[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 30	Mar 27	month ago	year ago
1676.8	1674.0	1694.0	1967.1

■ CRB Futures (Base: 1967 = 100)

Mar 27	Mar 26	month ago	year ago
229.93	229.58	-	-

■ GSCI Spot (Base: 1970 = 100)

Mar 27	Mar 26	month ago	year ago
170.53	170.65	185.10	193.44

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-100	to	544,858
Aluminium alloy	-80	to	48,180
Copper	-3,000	to	344,098
Lead	-660	to	95,585
Nickel	+30	to	64,548
Zinc	-2,825	to	410,775
Tin	-380	to	7,665

Spices from Man Producten

Pepper: The market showed a firmer trend with supplies getting tighter in Europe and the US. Production in India and Vietnam are falling short of earlier estimates and farmers are unwilling to release much pepper. Black Asia pepper was quoted at $5,500 a tonne. White pepper has become a rare item, with stocks almost exhausted. No relief is expected before July/August. Muntok white FAQ $7,900 a tonne spot.

Tea

The London Tea Auction is now fortnightly. The next report will appear on April 7.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	63.425	-0.500	63.825	63.180	7,784	34,138
Jun	65.200	-0.775	65.725	64.800	5,006	[illegible]
Aug	66.650	-0.625	67.150	66.450	2,166	14,283

[illegible]

LONDON TRADED OPTIONS

[illegible]

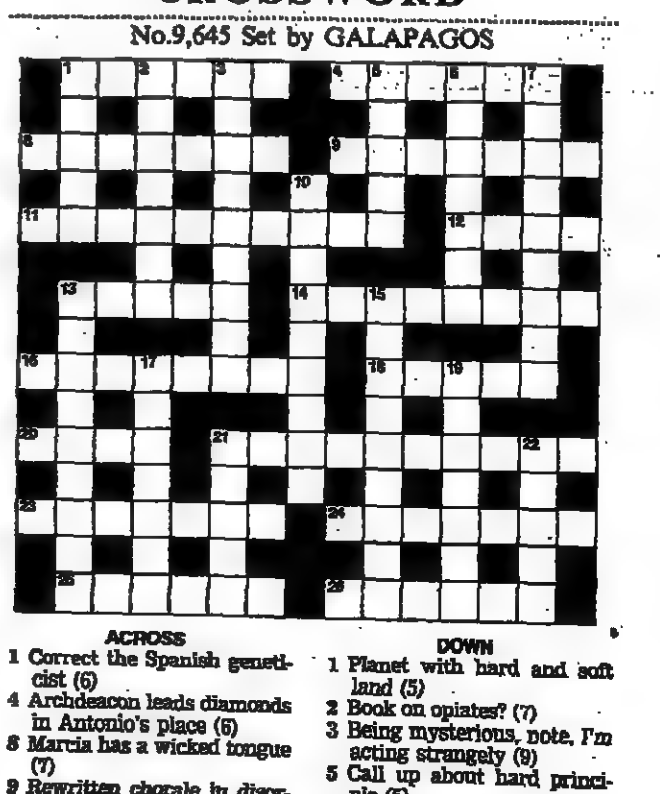
LONDON SPOT MARKETS

[illegible]

JOTTER PAD

CROSSWORD

No.9,645 Set by GALAPAGOS



ACROSS

1 Correct the Spanish geneticist (6)
4 Archdeacon leads diamonds in Antonio's place (6)
8 Marcia has a wicked tongue (7)
9 Rewritten chorale in disorder (7)
11 New place might be cool (10)
12 Divine street in which to set up home (4)
13 Return-girl's property (5)
14 Swimmer in Raphael's work (4,4)
16 Statesman in a cream rig out (8)
18 Being indelicate, church rejected animal (5)
20 Fruit juice is not an option (4)
21 In board room, others talk excitedly about gold (10)
23 Awful chore is beyond the call of duty (7)
24 Turn Herb out to cause suffering (7)
25 Relative on the left has lost home (6)
26 Sticky food (6)

DOWN

1 Planet with hard and soft land (5)
2 Book on opiates? (7)
3 Being mysterious, note, I'm acting strangely (9)
5 Call up about hard principle (5)
6 Territories, in the main, one defames without hesitation (7)
7 Eastern support vessel accepted old Italians (9)
10 Irritation in chest is uncomfortable (9)
13 Members surrounding our Queen, they provide protection (9)
15 Figure in confusion after break, we hear (9)
17 Royal deeds rule out second helpings (7)
19 Order soldiers to climb mountains (7)
21 Old city rejected revolutionary gathering (5)
22 Get rejection out of the way, it's unpleasant (5)

Solution to Saturday's prize puzzle on Saturday April 11.
Solution to yesterday's prize puzzle on Tuesday April 14.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details

ABN AMRO Funds - Contd.

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

4 Boulevard Royal, L-2449 Luxembourg 00 352 227001

American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 40404[illegible]211

BAII Asset Management Ltd

10 Piccadilly, London W1V 0EE 0171 734 3780

Bank Von Ernst & Cie AG

Fleming Group - Contd.

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav(u)

47 Boulevard Royal, L-2449 Lux 00 352 4640101

Mercury Asset Management - Contd.

Morgan Stanley Sicav

LUXEMBOURG (REGULATED)(**)

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management

Swiss Bank Corporation

Eagle Star Intl Life

OFFSHORE INSURANCES

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

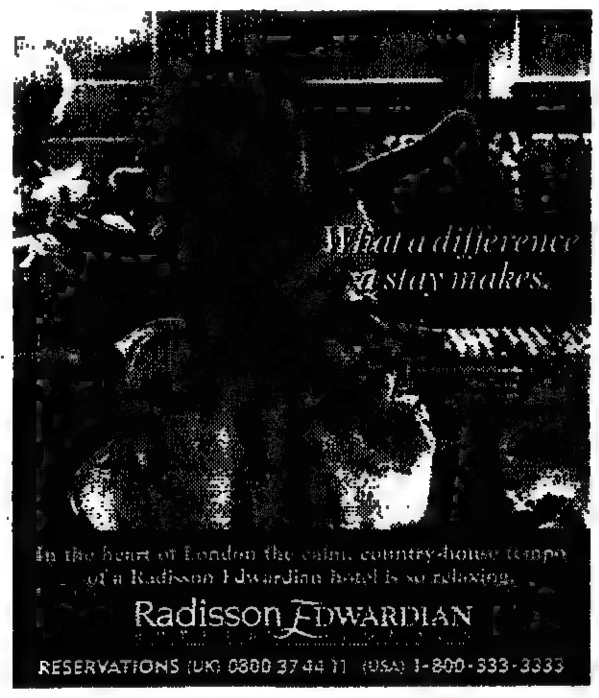
● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) [illegible]

	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International (Ireland) Ltd				
PO Box 121, St Peter Port, Guernsey 01481 726726				
[illegible]				
Old Mutual International (Isle of Man) Ltd				
[illegible]				
PanEuroLife societe anonyme				
7, Rue de la Chapelle L-1325 Lux 00 352 456730				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Alpha Fund Management Ltd				
[illegible]				
The Americas Trust Bank				
[illegible]				
Apex Bank & Trust Company				
[illegible]				
Arawis Capital Advisors LLC				
[illegible]				
Arc Investment Company Ltd				
[illegible]				
Ardent Investment Management Limited				
[illegible]				

OTHER OFFSHORE FUNDS

[illegible]



Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd - Contd.

[illegible]

ardi pays
geo more
expected

Second
Market
refocuses

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES
[illegible]

BANKS, RETAIL
[illegible]

BREWERIES, PUBS & REST
[illegible]

BUILDING MATS. & MERCHANTS
[illegible]

CHEMICALS
[illegible]

CONSTRUCTION
[illegible]

CONSTRUCTION - Continued
[illegible]

DISTRIBUTORS
[illegible]

DIVERSIFIED INDUSTRIALS
[illegible]

ELECTRICITY
[illegible]

ELECTRONIC & ELECTRICAL EQPT
[illegible]

ENGINEERING
[illegible]

ENGINEERING - Continued
[illegible]

ENGINEERING, VEHICLES
[illegible]

EXTRACTIVE INDUSTRIES
[illegible]

EXTRACTIVE INDUSTRIES - Continued
[illegible]

FOOD PRODUCERS
[illegible]

GAS DISTRIBUTION
[illegible]

HEALTH CARE
[illegible]

HEALTH CARE - Continued
[illegible]

HOUSEHOLD GOODS & TEXT
[illegible]

HOUSEHOLD GOODS & TEXT - Continued
[illegible]

INVESTMENT TRUSTS
[illegible]

INVESTMENT TRUSTS - Continued
[illegible]

INV TRUSTS SPLIT CAPITAL
[illegible]

FINANCIAL TIMES TUESDAY MARCH 31 1998

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

MEDIA - Continued

PHARMACEUTICALS - Continued

RETAILERS, GENERAL - Continued

TRANSPORT - Continued

AIM - Continued

PROPERTY

OTHER INVESTMENT TRUSTS

SUPPORT SERVICES

WATER

AIM

OIL EXPLORATION & PRODUCTION

AMERICANS

INVESTMENT COMPANIES

CANADIANS

OIL, INTEGRATED

SOUTH AFRICANS

OTHER FINANCIAL

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

PROPERTY - Continued

SUPPORT SERVICES - Continued

LEISURE & HOTELS

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

TELECOMMUNICATIONS

LIFE ASSURANCE

RETAILERS, GENERAL

TOBACCO

MEDIA

TRANSPORT

PHARMACEUTICALS

FT Free Annual Reports Service

FT Company Focus / Focus Plus

FT Cityline

Sterling and interest rate worries upset equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Any lingering hopes that London's equity market might extend Friday's rally were dashed *early yesterday* as sterling continued its strong run and Asian markets fell sharply.

Adding to the downside pressure on UK stocks was nervousness among fund managers about a series of forthcoming economic events, starting with today's US Federal Reserve's open market committee meeting.

The FOMC meeting is followed on Friday by the non-farm payroll report, which always has the capacity to affect global markets.

There are persistent concerns in London that the next meeting of the Bank of England's *monetary policy* committee, scheduled for April 8, might bring a rise in domestic interest rates.

The imminent end of the first quarter and the tax year was also put forward as an excuse to hit the market, dealers said.

"There is a feeling much of the cash inflows generated by personal equity plans have been pushed into the market and the valuation worries, which were given publicity last week, will play a bigger role in affecting sentiment," said one.

But he also mentioned the support provided by the *continuing stream of share buybacks*, which was joined by W. H. Smith and Burmah Castrol yesterday, and the constant bid action.

Sterling weighed heavily on the big exporters. The Bank of England's trade-weighted index moved up to 103.7, its highest reading since 1988, as foreign exchange markets acknowledged the possibility of a rate rise next month.

The decline in stock prices was broadly based and not confined to the leaders. In recent weeks, the FTSE 250 and FTSE SmallCap have been insulated from setbacks *by institutions seeking* better-value stocks.

But the front-line stocks, because of their much higher liquidity, bore the brunt of yesterday's selling, with the FTSE 100 giving back most of Friday's rally. It finished the session 27.4 lower at 5,911.9, having fallen 64.5 to 5,874.8 over midday. Dealers expressed some surprise at Wall Street's resolute opening yesterday, which saw the Dow Jones Industrial Average up more than 15 points within a few minutes, helping London rally.

The FTSE 250 settled 4.9 lower at 5,528.3, *after a mid-morning attempt at a rally* briefly saw the index move into positive ground. The FTSE SmallCap eased back 3.5 to 2,634.4.

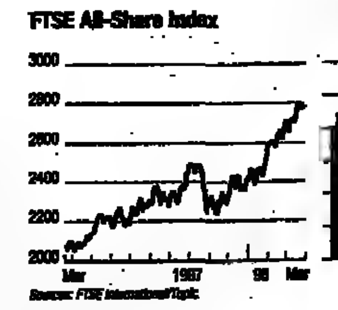
The market setback did not dissuade the strategy team at CSFB, the investment bank, from increasing their year-end forecast from 6,000 to 6,600.

One of the most bullish brokers at end-1997, CSFB's team highlighted three factors prompting its upgrade: "First, support continues to come from low bond yields; second, low bond yields coincide with high returns on *equity; third, whatever the* absolute performance of the UK has been, it remains a poor relation in Europe."

Financial stocks featured prominently among the worst performers in both the FTSE 100 and 250.

Turnover at the 6pm cut-off point was 660.2m shares, of which only 41.8 per cent was in Footsie stocks.

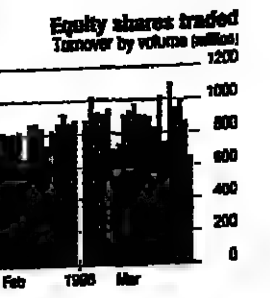
FTSE All-Share Index



Source: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5911.9	-27.4	FT 30	3750.3	-18.4
FTSE 250	5528.3	-4.9	FTSE Non-Fins p/e	22.33	22.29
FTSE 350	2844.8	-11.2	FTSE 100 Fut Mar	5935.0	-13.0
FTSE All-Share	2774.99	-10.45	10 yr Gilt yield	6.00	6.00
FTSE All-Share yield	2.80	2.78	Long gilt/equity yld ratio	2.14	2.16

Best performing sectors		Worst performing sectors	
1 Electronic & Elec	+1.6	1 Alcoholic Beverages	-1.9
2 Household Goods	+1.4	2 Life Assurance	-1.5
3 Pharmaceuticals	+0.9	3 Other Financial	-1.3
4 Telecommunications	+0.5	4 Retail	-1.1
5 Distributors	+0.4	5 Building Matls & Merch	-1.1

Next recovers from fall

COMPANIES REPORT

By Peter John and Martin Brice

Retailer Next rebounded from last week's profits warning after the directors and staff stock options programme tried the shares on for size.

Shares in the high street fashion chain rose 15 to 550p *after directors bought 245,000* shares and more than 1m shares were bought for the employee share option programme.

This round of option-related buying followed the purchase of 1.75m option-related shares on Friday.

There was also speculation about a possible tie-up with Asda, which is believed to be *looking for an expansion route* following the collapse of last year's merger talks with Safeway.

Shares in Next fell sharply on Friday as investors reacted to the announcement of a significant sales deterioration during the first seven weeks of the company's financial year.

Analysts reduced forecasts *for Next 1998* profit to £175m-£183m from £183m-£216m previously.

Prospects of an overseas bid sent National Power, the UK's largest electricity generator, racing ahead 27 to 612p, the biggest rise in the FTSE 100 index.

One Sunday newspaper reported that, following a profits warning, National Power could be the subject of a bid from the US. The paper said a number of merchant banks were touting a break-up bid for National Power around the larger US electricity companies. It said AES, Edison International and Pacific Gas & Electric were all interested parties.

Meanwhile, Scottish Power shed 7½ to 563½p in spite of a reinforced recommendation from Goldman Sachs. The broker reiterated its "market outperformer" rating after discussions with management. The broker increased its share price target from 575p to 611p after increasing its earnings per share forecast.

Burmah Castrol gushed higher as one of the company's brokers put its weight behind the company.

Dealers said Cazenove had put a price tag of £14 a share on the stock.

The shares rose 69 to £11.70 with dealers saying Cazenove had also calculated that the stock would also generate earnings per share of 78.9p in 1999.

The attractions of UK companies to larger foreign counterparts was underlined in the bid for More Group, Decaux, the French outdoor advertising company, trumped the £10.30-a-share bid from Clear Channel of the US with its £11.10 bid. US *outdoor advertising companies* trade at 40 times earnings, double the ratings of UK counterparts. More gained 20 to £11.42½.

One shareholder in More said: "This means we might have a bidding war. But one of them won't win, and Maiden Group is right open to a bid."

Sector specialists predicted *the fight could intensify* between the US and the French companies, with each determined to dominate the UK outdoor advertising market. Maiden, which unveiled underlying pre-tax profits up 27 per cent, gained 37½ to 443½p.

Carlton Communications moved ahead 12 to 470p with Panmure Gordon said to be a *buyer of the stock.*

Mersey Docks and Harbour Company was firm after the placing of the government's 14 per cent stake in the company. The 12m shares were placed at 565p via Charterhouse Tilney, Merrill Lynch and SBC Warburg Dillon Read. The shares, which went ex the 10p net dividend today, were up 3 at 576½p.

Northern Foods tumbled 78 to 223½p on a technical readjustment as the market recalculated for the demerger of Express Dairies. Meanwhile, Express Dairies closed at 182p, putting a value of 315p a share on the old stock. Carl Short at SG Securities said the demerger highlighted the disparity between Express and Dairy Crest, and the latter now appeared to be a far more balanced business.

"Now that you have had the split, and you have the option, you can reduce exposure to Express, which, in our view is overvalued in comparison to Dairy," said Mr Short.

Banks suffer

Bank shares endured another uncomfortable session, with the mortgage lenders taking a pounding for much of the day before staging a modest rally towards the close.

Abbey National slipped 12 to £11.75, Alliance & Leicester 15 to 887p and Woolwich 15 to 363½p.

Zeneca built on Friday's *sharp rise, which was fuelled* by the return of consolidation talk, and closed 55 higher at £25.85.

The shares were further supported by an announcement from the company that an international study showed that high doses of heart drug Zestril provide "significant therapeutic benefits".

Blue Circle suffered the biggest fall in the FTSE 100 after it came out with results at the lower end of analysts' estimates, coupled with caution on the trading outlook for its Chilean business. The underlying result came in at £342m, compared with analysts' estimates of between £340m-£360m. The shares fell 25½ to 356½p.

Analysts were reported to be downgrading their forecasts for next year's results from about £10m-£15m, leaving estimates at about £335m-£340m. At yesterday's close, the shares stood at about 12½ times next year's earnings, a discount to the market of about 26 per cent.

RMC, which reports its full-year results next Wednesday, lost 28 to 975p in sympathy.

Elsewhere in the construction sector, Hepworth was the best FTSE 250 performer, climbing 26 to 264p after bid talk in the weekend press said Valliant of Germany was ready to pay 270p a share for the building materials company.

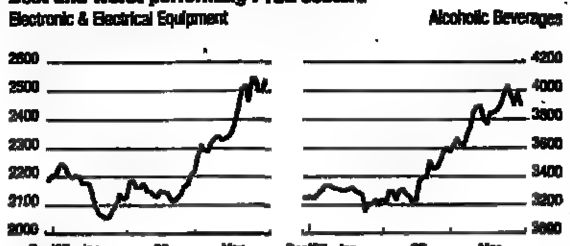
Oil majors were comparatively steady as investors took encouragement from the start of the latest meeting of Opec ministers.

Opec yesterday began a meeting to discuss ways to stabilise oil prices, notably through a pledge by Opec and non-Opec producers to cut output.

BP, the stock most exposed to shifts in the underlying oil price, rose 2 in early trading, but ended the day 3 lower at 877p. Meanwhile, Shell Transport fell 3½ to 440½p.

The most heavily traded stock in the market was Tamaris, where 32m changed hands. The stock was unchanged at 2¼p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Mar 30	Mar 27	Mar 26	Mar 25	Mar 24	Yr ago	*High	*Low
FT 30	3750.3	3768.7	3754.1	3790.2	3756.7	2951.4	3768.7	3725.8
Ord. div. yield	2.58	2.64	2.64	2.61	2.61	3.89	[illegible]	[illegible]
P/E ratio net	24.63	24.18	24.11	24.33	24.40	17.06	24.48	15.80
P/E ratio nil	23.84	23.94	23.90	24.11	24.19	15.85	24.28	15.71

FT 30 since compilation: [illegible]

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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STOCK MARKET TRADING DATA

	Mar 30	Mar 27	Mar 26	Mar 25	Mar 24	Yr ago
SEAQ bargains	78,877	77,102	72,063	74,114	74,310	58,847
Equity turnover (£m)†	-	na	[illegible]	[illegible]	[illegible]	na
Equity bargains†	-	na	[illegible]	[illegible]	[illegible]	na
Shares traded (ml)†	-	na	[illegible]	[illegible]	[illegible]	na
Total market bargains†	-	na	[illegible]	[illegible]	[illegible]	na
Total turnover (£m)†	-	na	[illegible]	[illegible]	[illegible]	na
Total shs traded (ml)†	*660.2	na	[illegible]	[illegible]	[illegible]	na
Tradepoint turnover (£m)	54.8	24.8	28.5	20.7	31.5	0.8
Tradepoint shs traded	11,084	9,047	10,369	7,392	8,220	140

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	621	Total Highs	186	Total contracts	12,057
Total Falls	898	Total Lows	96	Calls	5,280
Same	1,229			Puts	6,777

Mar 30 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5940.0	5953.0	-13.0	5965.0	5925.0	13642	152022
Sep	-	6031.0	-13.0	-	-	0	3085

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	5551.0	-7.0	-	-	0	6494

■ FTSE 100 INDEX OPTION (LIFFE) (*5880) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997/98 High	Low	Stock	Closing price p	+or-
280	Nil	17/4	26pm	24½pm	Cap & Reg Props	25pm	
10	Nil	17/4	7½pm	3½pm	Oxford Biomedica	5½pm	[illegible]
180	Nil	6/4	42½pm	25pm	Paragon	37½pm	-½
3	Nil	9/4	2¼pm	1¾pm	Pex	1¾pm	+1
235	Nil	8/4	22pm	16pm	Westbury	18pm	-3½

pm premium.

FTSE GOLD MINES INDEX

	Mar 27	% chg on day	Mar 26	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (32)	1161.76	+3.5	1111.55	1654.82	2.14	-	1654.82	881.23
■ Regional Indices								
Africa (14)	1037.21	+4.5	996.87	1943.30	5.20	19.33	1943.30	821.75
Australasia (7)	1401.78	+4.1	1359.50	1847.75	2.46	18.56	1982.16	933.63
North America (11)	1174.43	+3.3	1138.49	1549.16	1.04	48.69	1574.16	864.86

Copyright, FTSE International Limited 1998. All rights reserved. Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. CONSTITUENT CHANGE 30/3/98: Name change: Vaal Reefs to Anglogold Ltd. (Africa).

FTSE Actuaries Share Indices — **The UK Series**

Produced in conjunction with the Faculty and Institute of Actuaries

	Mar 30	Day's chge%	Mar 27	Mar 26	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5911.9	-0.5	5939.3	5905.6	4312.9	2.75	2.34	2.07	21.94	49.69	2574.47
FTSE 250	5528.3	-0.1	5533.2	5515.4	4576.2	2.95	2.46	2.13	19.87	31.94	2355.13
FTSE 250 ex IT	5572.8	.....	5572.8	5553.9	4616.7	3.04	2.55	2.19	18.73	32.86	2382.80
FTSE 350	2844.8	-0.4	2855.8	2840.9	2128.1	2.79	2.37	2.06	21.52	22.50	2530.14
FTSE 350 ex IT	2848.1	-0.4	2860.0	2844.8	–	2.80	2.38	2.10	21.28	22.74	1289.79
FTSE 350 Higher Yield	2828.3	-0.6	2842.3	2824.1	2082.8	3.72	3.18	1.86	16.95	28.38	2145.32
FTSE 350 Lower Yield	2880.3	-0.3	2889.3	2876.9	2210.5	2.07	1.73	2.22	27.20	16.16	2085.45
FTSE SmallCap	2634.40	-0.1	2637.88	2630.70	2313.72	2.88	2.38	1.83	28.44	12.74	2277.41
FTSE SmallCap ex IT	2632.62	.....	2633.88	2625.24	2323.30	3.09	2.49	1.88	25.83	12.42	2297.81
FTSE All-Share	2774.99	-0.4	2785.44	2771.33	2089.70	2.80	2.38	2.05	21.85	21.40	2504.60
FTSE All-Share ex IT	2781.85	-0.4	2791.97	2777.48	–	2.82	2.38	2.07	21.46	21.71	1291.72

■ **FTSE Actuaries Industry Sectors**

	Mar 30	Day's chge%	Mar 27	Mar 26	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4679.64	-0.5	4702.61	4696.77	4123.74	3.21	2.78	1.64	21.13	27.12	2131.59
12 Extractive Industries(5)	3163.98	-1.0	3197.27	3128.00	4078.63	4.82	3.99	2.06	13.89	72.61	987.33
15 Oil, Integrated(4)	5205.27	-0.4	5225.36	5236.99	4239.12	3.20	2.74	1.80	21.76	17.89	2434.34
16 Oil Exploration & Prod(13)	3317.42	-0.8	3344.11	3315.01	3621.38	1.73	1.43	1.99	37.38	21.16	2054.04
20 GEN INDUSTRIALS(255)	2234.13	-0.3	2240.09	2232.98	2008.17	3.34	2.92	2.28	16.43	17.50	1305.23
21 Construction(38)	1633.31	-0.6	1642.47	1650.59	1348.07	2.98	2.40	2.49	16.96	10.29	1448.77
22 Building Matls & Merchs(27)	1896.76	-1.1	1918.55	1911.09	1880.32	3.96	3.37	2.98	11.90	9.24	1021.49
23 Chemicals(24)	2800.03	-0.5	2813.90	2822.76	2278.33	3.95	3.12	1.68	20.42	24.81	1425.44
24 Diversified Industrials(11)	1461.75	-0.5	1469.39	1458.63	1525.76	3.91	3.86	2.22	[illegible]	[illegible]	[illegible]
25 Electronic & Elect Equip(37)	2537.57	+1.6	2498.10	2497.89	2207.00	3.37	2.73	1.53	24.28	18.05	1396.55
26 Engineering(81)	3044.14	-0.4	3055.91	3038.72	2611.84	3.12	2.76	2.40	16.70	27.58	1956.41
27 Engineering, Vehicles(10)	4015.94	-0.1	4021.02	3994.52	2850.23	2.13	1.96	3.38	17.39	[illegible]	[illegible]
28 Paper, Pckg & Printing(24)	2236.91	-0.3	2244.20	2232.62	2539.52	4.58	3.84	2.18	12.63	15.02	1000.55
30 CONSUMER GOODS(95)	[illegible]	+0.1	[illegible]	[illegible]	[illegible]	2.51	2.32	1.90	26.29	58.64	2217.15
32 Alcoholic Beverages(6)	3904.16	-1.9	3978.56	3900.80	2958.06	2.98	2.95	1.86	22.63	55.09	1525.18
33 Food Producers(24)	3854.46	-0.6	3876.11	3838.78	2927.48	2.80	2.39	2.08	21.48	22.30	1856.28
34 Household Goods & Textiles(24)	3494.75	+1.4	3445.75	3440.92	2899.31	3.12	2.78	2.22	18.03	36.23	1468.69
36 Health Care(14)	2382.81	+0.2	2378.15	2361.32	2200.91	2.10	1.90	2.30	25.79	9.49	1514.01
37 Pharmaceuticals(20)	9342.62	+0.9	9262.80	9168.70	6514.66	1.85	1.73	1.80	37.36	85.22	3337.94
38 Tobacco(3)	5066.18	-0.8	5107.07	5061.87	4843.17	4.74	4.48	1.78	14.82	121.61	1415.41
40 SERVICES(278)	3401.35	-0.1	3404.48	3382.56	2644.71	2.49	2.02	2.00	25.20	14.24	1861.33
41 Distributors(28)	[illegible]	-0.4	[illegible]	2765.71	2679.53	3.39	2.77	2.00	16.46	23.53	1100.81
42 Leisure & Hotels(37)	3958.18	-1.0	3997.94	3981.39	3470.92	2.54	2.03	2.32	21.17	47.64	2239.53
43 Media(41)	4468.43	-0.1	4472.19	4470.74	4284.09	2.30	1.94	2.17	26.02	43.29	1690.44
44 Retailers, Food(13)	3074.72	-0.1	3076.86	3047.01	2004.32	2.74	2.19	2.27	20.10	3.94	2071.34
45 Retailers, General(49)	[illegible]	-0.3	[illegible]	[illegible]	2071.01	3.03	2.43	2.22	18.65	6.23	1439.75
46 Telecommunications(10)	3788.14	+0.5	3767.17	3704.51	2295.84	2.33	1.88	1.51	35.60	4.04	1840.91
47 Breweries, Pubs & Rest.(24)	[illegible]	-0.3	[illegible]	[illegible]	[illegible]	2.74	2.19	2.40	[illegible]	[illegible]	[illegible]
48 Support Services(61)	4734.62	-0.2	4743.54	4720.44	2943.85	1.28	1.06	2.53	39.39	4.97	3105.98
49 Transport(25)	3469.83	-0.4	3483.05	3447.70	2802.68	2.98	2.44	1.27	32.89	21.56	1539.81
60 UTILITIES(23)	3861.64	-0.1	3865.50	3829.18	2684.49	4.02	3.22	1.69	18.37	8.35	1821.17
62 Electricity(9)	4306.19	.....	4304.31	4253.89	2828.23	4.33	3.47	2.18	13.26	7.28	2484.43
64 Gas Distribution(2)	2861.42	-0.4	2861.61	2854.09	1520.75	2.28	1.83	‡	‡	0.00	1633.19
68 Water(12)	3489.90	-0.1	3495.10	3457.45	2434.55	4.89	3.91	2.20	11.59	10.26	2119.88
69 NON-FINANCIALS(637)	2752.85	-0.1	2756.20	2738.84	2166.88	2.84	2.42	1.97	22.33	17.41	2229.31
70 FINANCIALS(116)	5747.70	-1.0	5806.26	5783.90	3761.74	2.77	2.28	2.32	19.42	68.58	2632.98
71 Banks, Retail(12)	8347.18	-1.1	8444.23	8411.73	5440.14	2.82	2.26	2.29	19.33	116.92	2922.57
73 Insurance(17)	2757.29	+0.3	2747.70	2728.06	1658.35	3.09	2.79	2.92	13.93	35.32	2260.48
74 Life Assurance(8)	7410.38	-1.5	7520.22	7608.79	4531.89	2.52	2.18	2.54	19.54	64.23	3280.89
77 Other Financial(27)	4730.88	-1.3	4795.32	4760.03	3123.72	2.32	1.89	2.18	24.89	31.35	2867.88
79 Property(45)	2368.35	-0.5	2381.15	2378.73	1863.88	2.74	2.27	1.44	31.70	7.58	1543.69
80 INVESTMENT TRUSTS(118)	3909.53	-0.8	3941.12	3938.05	3288.03	2.01	1.63	1.18	52.44	19.35	1419.17
89 FTSE All-Share(865)	2774.99	-0.4	2785.44	2771.33	2089.70	2.80	2.38	2.05	21.85	21.40	2504.60
105 FTSE All-Share ex IT(747)	2781.85	-0.4	2791.97	2777.48	–	2.82	2.38	2.07	21.46	21.71	1291.72
Information Technology	1477.90	-0.1	1479.59	1477.51	–	0.68	0.46	3.36	64.20	1.70	1479.86
FTSE Fledgling	1413.40	-0.1	1415.27	1412.08	1306.89	3.11	2.52	1.40	28.76	6.97	1556.56
FTSE Fledgling ex IT	1434.17	-0.1	1435.41	1431.60	1327.74	3.47	2.81	1.44	25.02	7.77	1584.80
FTSE AIM	1060.0	-0.1	1061.3	1068.4	–	1.14	0.90	0.53	60.00†	2.60	978.26

■ **Hourly movements**

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	–	5930.5	5899.2	5901.9	5891.1	5886.6	5882.0	5887.6	5890.2	5950.4	5874.8
FTSE 250	–	5532.8	5530.1	5524.3	5525.8	5525.4	5526.0	5525.4	5526.6	5536.0	5523.7
FTSE 350	–	2852.3	2835.9	2840.3	2836.3	2834.5	2832.7	2834.8	2836.0	2859.9	2829.8
FTSE SmallCap	2637.04	[illegible]	2635.81	2636.04	2635.98	2636.37	2636.23	2635.08	2634.42	2637.04	2634.37
FTSE All-Share	–	2782.13	2767.10	2771.14	2767.43	2765.76	2764.16	2766.07	2767.06	2789.07	2761.46

Time of FTSE 100 Day's high: 8:24:45 Day's low: 14:22:45. FTSE 100 1997 High: 5997.9 (19/03/98) Low: 4056.6 (10/01/97).
Time of FTSE All-Share Day's high: 8:25:00 Day's low: 14:28:00. FTSE All-Share 1997 High: 2790.80 (24/03/98) Low: 1989.78 (23/01/97).

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. For Quarterly Review Changes please see FT on 12 March page 32 or website www.ftse.com. Insert: Express Dairies (FTSE 250) & (33), London Clubs (FTSE SmallCap). Delete: London Clubs (FTSE 250), AB Leisure (FTSE Fledgling). Name Change: Kleinwort Charter now Charter European (FTSE SmallCap).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

مكبرة من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 30 / Sch)

BELGIUM/LUXEMBOURG (Mar 30 / Frs.)

CZECH REP (Mar 30 / Korunas)

DENMARK (Mar 30 / Kr)

FINLAND (Mar 30 / Mka)

FRANCE (Mar 30 / Frs.)

GERMANY (Mar 30 / Dm.)

GREECE (Mar 30 / Drachma)

ITALY (Mar 30 / Lira)

NETHERLANDS (Mar 30 / Fl.)

NORWAY (Mar 30 / Kroner)

POLAND (Mar 30 / Zloty)

PORTUGAL (Mar 30 / Escudo)

SPAIN (Mar 30 / Pta.)

SWEDEN (Mar 30 / Kronor)

SWITZERLAND (Mar 30 / Frs.)

TURKEY (Mar 30 / TL Lira)

PACIFIC

JAPAN (Mar 30 / Yen)

AUSTRALIA (Mar 30 / Aust$)

HONG KONG (Mar 30 / H.K.$)

INDONESIA (Mar 30 / Rupiah)

MALAYSIA (Mar 30 / MYR)

NEW ZEALAND (Mar 30 / NZ $)

SINGAPORE (Mar 30 / S$)

SOUTH KOREA (Mar 30 / Won)

TAIWAN (Mar 30 / TW $)

THAILAND (Mar 30 / Baht)

AFRICA

SOUTH AFRICA (Mar 30 / Rand)

AMERICAS

CANADA

TORONTO (Mar 30 / Can $) 3:15 pm

MONTREAL (Mar 30 / Can $) 3:15 pm

BRAZIL

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MARCH 27 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MARCH 26 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	216.84	-0.9	191.02	178.64	206.06	214.16	-0.9	3.63	218.81	192.27	178.19	207.41	216.16	243.87	190.26	219.98
Austria (23)	221.21	1.8	194.88	182.25	210.22	210.06	2.0	1.55	217.38	191.00	177.00	206.03	205.88	221.21	175.14	186.45
Belgium (26)	309.78	-0.6	272.90	255.22	294.39	288.22	-0.3	2.45	311.74	273.94	253.87	295.50	289.05	316.38	227.73	237.89
Brazil (30)	260.97	-0.8	229.91	215.01	248.00	545.75	-0.8	1.74	263.06	231.15	214.22	249.35	549.96	322.44	184.94	236.93
Canada (120)	247.29	0.7	217.85	203.73	235.00	253.28	0.8	1.58	245.62	215.83	200.02	232.83	251.19	247.29	178.27	188.78
Denmark (34)	510.38	0.0	449.62	420.48	485.02	483.73	0.2	1.24	510.59	448.67	415.80	494.00	482.59	513.41	349.27	386.82
Finland (26)	372.03	0.1	327.74	306.50	353.54	433.01	0.3	2.08	371.86	326.76	302.82	352.49	431.82	378.27	243.25	258.29
France (79)	294.94	0.5	259.83	242.99	280.28	283.49	0.7	2.03	293.58	257.98	239.08	278.29	281.44	295.53	209.81	225.29
Germany (58)	270.11	0.6	237.95	222.53	256.68	256.68	0.8	1.27	268.60	238.02	218.73	254.60	254.60	271.10	193.39	206.52
Hong Kong, China (66)	358.38	0.1	315.72	295.26	340.57	356.47	0.0	4.50	358.21	314.77	291.71	339.55	356.32	580.03	262.93	455.87
Indonesia (27)	59.58	1.1	52.48	49.08	56.62	308.84	2.0	2.18	58.94	51.79	48.00	55.87	302.83	254.90	27.87	232.49
Ireland (16)	523.86	0.5	461.50	431.59	497.83	537.22	0.8	1.85	521.36	458.13	424.57	494.20	533.12	525.09	322.44	329.93
Italy (54)	160.94	-0.9	141.78	132.60	152.94	216.74	-0.6	1.14	162.46	142.76	132.30	154.00	218.14	162.46	84.48	87.20
Japan (480)	100.34	-1.4	88.39	82.66	95.35	82.66	-0.2	0.96	101.75	89.41	82.86	98.45	82.86	141.12	88.52	114.47
Malaysia (107)	223.96	0.1	197.29	184.51	212.83	308.36	-0.7	2.23	223.71	196.58	182.18	212.06	310.60	623.44	113.56	623.44
Mexico (29)	1675.95	1.4	1476.42	1380.75	1592.65	15591.82	1.2	1.45	1652.25	1451.88	1345.51	1568.18	15404.83	1901.98	1328.20	1371.95
Netherlands (19)	484.91	1.1	427.18	399.50	460.81	456.05	1.4	2.01	479.84	421.85	390.76	454.85	449.91	484.91	330.32	351.33
New Zealand (14)	76.46	-0.9	67.36	62.99	72.66	72.33	-0.5	4.51	77.16	67.80	62.83	73.14	72.71	96.47	71.49	84.85
Norway (38)	335.29	0.8	295.37	276.23	318.62	342.95	0.8	1.82	332.55	292.22	270.81	315.23	340.06	374.64	281.62	312.00
Philippines (22)	106.03	1.4	93.41	87.36	100.75	197.37	-0.1	1.04	104.55	91.87	85.14	99.11	197.58	196.90	57.54	195.44
Singapore (42)	243.04	1.2	214.11	200.23	230.96	177.91	0.8	1.75	240.04	210.93	195.47	227.53	176.54	402.07	144.01	389.83
South Africa (43)	303.68	1.6	267.53	250.19	288.59	330.25	1.6	2.66	298.89	262.64	243.40	283.32	324.88	365.52	227.66	360.55
Spain (32)	377.09	0.3	332.20	310.67	358.35	443.30	0.6	1.63	376.05	330.44	306.23	356.46	440.59	380.44	210.35	218.50
Sweden (48)	569.52	0.7	501.71	469.20	541.21	664.36	0.5	1.76	565.43	496.88	460.46	535.98	660.90	571.99	405.00	443.82
Switzerland (31)	398.18	0.7	350.78	328.04	378.39	368.91	1.4	1.05	395.30	347.36	321.91	374.71	384.79	398.18	252.68	260.26
Thailand (39)	31.98	2.9	28.17	26.34	30.39	46.97	1.0	6.39	31.07	27.30	25.30	29.45	46.52	84.87	13.10	81.22
United Kingdom (209)	391.11	0.3	344.54	322.22	371.67	344.54	0.6	2.85	389.88	342.59	317.50	369.57	342.59	391.93	275.44	280.92
USA (638)	447.44	-0.5	394.18	368.63	425.21	447.44	-0.5	1.42	449.67	395.14	368.19	428.24	449.67	451.29	299.79	314.28
Americas (817)	406.25	-0.4	357.89	334.70	388.06	342.94	-0.4	1.43	408.00	358.52	332.26	386.75	344.40	409.30	274.59	287.89
Europe (696)	348.73	0.4	307.22	287.31	331.40	331.56	0.7	2.02	347.42	305.28	282.92	329.32	329.38	349.41	238.44	247.74
Nordic (149)	495.63	0.5	436.62	408.33	471.00	508.58	0.5	1.73	493.17	433.36	401.61	467.48	506.22	497.77	355.77	381.21
Pacific Basin (870)	111.98	-1.1	98.65	92.26	106.42	92.81	-0.3	1.61	113.23	99.50	92.21	107.34	93.05	158.99	95.32	134.37
Euro-Pacific (1566)	210.68	-0.1	185.60	173.58	200.21	182.64	0.4	1.89	210.87	185.30	171.72	199.89	181.96	210.87	172.03	181.82
North America (758)	434.82	-0.4	383.06	358.23	413.21	434.44	-0.4	1.42	436.75	383.78	355.67	414.00	436.33	438.12	282.34	306.62
Europe Ex. UK (487)	317.23	0.4	279.47	261.36	301.47	315.17	0.7	1.57	315.93	277.61	257.28	299.47	312.91	318.12	213.32	224.04
Pacific Ex. Japan (390)	214.82	-0.2	189.24	176.98	204.14	211.22	-0.3	3.69	215.19	189.09	175.24	203.98	211.89	318.98	161.31	301.00
World Ex. US (1788)	214.77	0.0	189.20	176.94	204.10	190.04	0.4	1.88	214.82	188.77	174.94	203.63	189.26	214.82	175.30	184.99
World Ex. UK (2217)	280.14	-0.3	246.79	230.80	265.22	256.23	-0.1	1.50	281.08	246.99	228.90	266.44	256.55	281.08	211.16	220.85
World Ex. Japan (1946)	383.77	-0.1	338.08	316.18	364.70	377.38	0.0	1.73	384.26	337.86	312.92	364.24	377.49	385.26	271.90	282.94
The World Index (2426)	289.51	-0.3	255.04	238.52	275.12	264.21	-0.1	1.64	290.27	255.07	236.38	275.15	264.35	290.27	216.61	225.97

 CONSTITUENT CHANGE 30/3/98: Name change: Vaal Reefs to Anglogold Ltd. (South Africa). Latest prices were unavailable for this edition.

Emerging markets: IFC Investable Indices

3:15 pm March 30

NEW YORK STOCK EXCHANGE PRICES

- A -

1997/98 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	16¼	AAR	0.32	1.2	32	845	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	33¼	AMP	1.08	2.5	20	2537	43	[illegible]	[illegible]	[illegible]
[illegible]	78¼	AMR			11	3052	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	19	ASA	0.80	3.5	14	546	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Abbott	1.20	1.6	27	9451	[illegible]	74	[illegible]	[illegible]

- X - Y - Z -

1997/98 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	51½	Xerox x	1.44	1.4	23	10872	[illegible]	[illegible]	[illegible]	-2
[illegible]	40½	Xtra Corp	0.88	1.4	20	178	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Yankee Egy x	1.34	5.5	14	231	[illegible]	[illegible]	[illegible]	[illegible]
68	[illegible]	York Int x	0.48	1.1	40	1271	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	4	Zapata	0.28	2.1	34	117	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	ZenithE				371	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	24½	Zenith Nat	1.00	3.5	17	37	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zweig Inc x	0.73	9.8		81	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	17¾	Zero	0.12	0.4	17	97	[illegible]	[illegible]	[illegible]	[illegible]
14	[illegible]	ZweigFd	1.32	8.6		195	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	8	Zweig Totl	0.84	8.8		337	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/s-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 27	Mar 26	Mar 25	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	8796.08	8846.89	8872.80	8906.43 (20/3/98)	6391.69 (11/4/97)	8906.43 (20/3/98)	41.22 (8/7/32)
Home Bonds	105.25	105.23	105.21	105.48 (15/1/98)	101.08 (14/4/97)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3512.32	3512.51	3517.52	3686.81 (17/3/98)	2222.07 (2/1/97)	3686.81 (17/3/98)	13.23 (8/7/32)
Utilities	282.84	284.99	287.00	287.80 (24/3/98)	203.47 (25/4/97)	287.80 (24/3/98)	16.53 (8/7/32)

DJ Ind. Day's high 8841.31 (8931.06) Low 8741.77 (8760.92) (Theoretical)
Day's high 8805.72 (8892.96) Low 8771.86 (8820.99) (Actual)

Standard and Poors							
Composite‡	1095.44	1100.80	1101.93	1105.65 (24/3/98)	737.01 (2/1/97)	[illegible] (24/3/98)	4.40 (1/6/32)
Industrials	1273.93	1280.31	1280.43	1283.16 (24/3/98)	865.42 (11/4/97)	1283.16 (24/3/98)	3.52 (30/6/32)
Financial	132.87	133.40	133.86	135.52 (20/3/98)	80.75 (2/1/97)	135.52 (20/3/98)	7.11 (4/9/74)
Others							
NYSE Comp.	569.80	572.21	572.76	574.98 (24/3/98)	[illegible] (11/4/97)	574.98 (24/3/98)	4.64 (25/4/42)
Amex Comp	738.33	739.39	736.89	739.39 (26/3/98)	541.20 (29/4/97)	739.39 (26/3/98)	524.20 (16/7/96)
NASDAQ Comp	1823.82	1828.54	1824.51	1828.54 (26/3/98)	1201.00 (2/4/97)	1828.54 (26/3/98)	54.87 (3/10/74)
Russell 2000	477.15	477.81	477.14	477.81 (26/3/98)	335.85 (25/4/97)	477.81 (26/3/98)	123.38 (7/12/83)

[illegible]	Mar 27	Mar 20	Mar 13	Year ago
Dow Jones Ind. Div. Yield	1.59	1.57	1.63	[illegible]
	Mar 25	Mar 18	Mar 11	Year ago
S & P Ind. Div. yield	1.32	1.35	1.36	1.77
S & P Ind. P/E ratio	30.37	29.80	29.26	22.54

US DATA

■ TRADING ACTIVITY

● Volume (million)

	Mar 27	Mar 26	Mar 25
NYSE	608.770	608.770	678.580
Amex	32.242	29.785	38.675
NASDAQ	744.729	731.216	805.475

NYSE	Mar 27	Mar 26	Mar 25
Issues Traded	3,466	3,484	3,467
Rises	1,316	1,465	1,369
Falls	1,573	1,514	1,532
Unchanged	579	505	566
New Highs	148	136	330
New Lows	27	28	12

■ NYSE TRADING ACTIVITY — Volume : 608,770,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
McDonalds	10,571,700	57⅝	+2
Compaq	8,073,800	25⅞	
Premier Pkg	6,316,800	58⅞	+3⅞
Pfizer	5,886,200	95⅝	+1
Ph Morris	5,519,200	42⅞	-⅛
Unicom	4,735,300	35⅞	+⅝
Toys R us	4,362,400	30⅞	+¾
GEC	4,000,500	83⅞	+1⅛
Fannie Mae	3,907,200	63⅝	+⅞
Newmont Mining	3,901,800	31⅛	+⅞

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Gn Instruments	20⅞	[illegible]	+8.9
Caribiner Intl	38	+2⅞	+8.7
LSI Logic	25½	+2	+8.5
C&D Tech	50⅞	+3⅞	+8.7
Downs			
Watsco	27	-2⅝	-8.9
CDI	43¾	-3⅝	-8.2
Millipore	33⅞	-1⅞	-5.4
Argentaria	47	-1⅞	-4.4

■ NASDAQ TRADING ACTIVITY — Volume :744,729,000

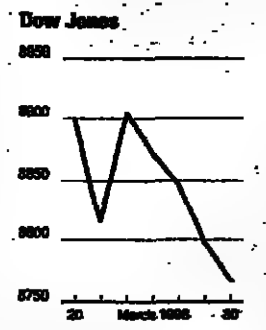
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Intel	18,181,000	78⅝	+⅞
Sun Micro	13,897,100	41⅞	-1⅛
Ascend	11,574,600	37⅝	+1⅛
Adobe	10,834,300	45½	[illegible]
Microsoft	9,824,300	87⅞	-⅞
Manugistics	9,288,700	53⅞	+⅞
In Focus Sys	8,672,000	9⅝	-4¼
Dell Comptr	8,387,300	67½	-1⅛
Cisco Sys	8,335,000	69⅝	
Tele Com	8,291,100	35⅞	-1⅛

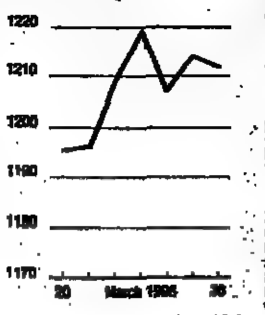
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Manugistics	53⅞	[illegible]	+40
SCM Micro	77⅝	+18⅝	+30.9
Amer Mobile	15⅞	+3⅛	+24.1
Col Sptswr	21⅞	+3⅞	+21.9
Downs			
Transcrypt	9⅝	-4⅞	-30.7
In Focus Sys	9⅝	-4⅝	-33.4
Gantstar	30⅛	-5⅞	-16.6
Siebert Fnl	31⅝	[illegible]	-14.2

Dow Jones



FTSE Eurotop 300



JAPAN

	Mar 30	Mar 27	Mar 26	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Nikkei 225	16283.04	16739.26	16909.82	20681.1	14664.4	38915.9	85.25

Day's high: 17009.89 Day's low: 16238.58

■ TOKYO TRADING ACTIVITY — Volume : 305,000,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Nip Steel Cp	10,663,000	213	-9
Fujita Cp	8,311,000	121	-16
Showa Line	8,267,000	55	-50
Asahi Corp	8,067,000	98	-12
Mitsui Hwy	5,510,000	512	+3
Sakura Bk	5,145,000	466	-35
Fujitsu	4,705,000	1360	+20
LTCB	4,391,000	269	-25
[illegible]	[illegible]	[illegible]	-6
NEC Corp	3,810,000	1349	

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
[illegible]	1500	+140	+10.3
[illegible]	780	+60	+8.6
San-in Godo	940	+70	+8.1
Sagami	364	+26	+7.7
Downs			
Sumo Coal	201	-42	-17.3
Nip Mtl Ind	141	-29	-17.1
[illegible]	111	-22	-16.5
Sato Kogyo	130	-23	-15

FRANCE

	Mar 30	Mar 27	Mar 26	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
CAC 40	3800.23	3810.23	3783.78	3818.71	2256.97	3818.71	984.61

Day's high: 3817.54. Day's low: 3786.62

■ PARIS TRADING ACTIVITY — Volume : 500,494,830

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Rho-Pou A	1,589,194	307.7	+5.8
Fr Telecom	1,585,278	311.3	+0.9
Renault	912,525	286.4	-0.1
Axa-UAP	785,274	619	-1
B.N.P.	754,223	489.4	-7.6
Usinor	608,796	101.6	+0.6
Euro Disney	571,852	9.7	-0.25
Elf Aquitaine	562,567	801	-11
Schneider	540,212	455.9	-4.9
Paribas	536,228	630	

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Marbor	367	+186.5	+103.3
Biopat	508	+205.4	+67.9
Tour Eiffel	365	+83	+29.4
Normapro	70.4	+6.4	+10
Downs			
Mors (B)	8.25	-0.85	-9.3
UAP	231.9	-23.1	-9.1
Gautier Fr	318.5	-25.5	-7.4
Kalamazoo	230	-18	-7.3

GERMANY

	Mar 30	Mar 27	Mar 26	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	5009.76	5063.16	5030.76	5096.82	2848.77	5096.82	931.18

Day's high: 5076.84. Day's low: 5008.22

■ FRANKFURT TRADING ACTIVITY — Volume : 12,725,540

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
BASF	11,372,995	79	+1.15
Commerzbank	6,812,602	68.2	-2.3
Deut.Bank	6,364,580	134.35	-5.2
Siemens	5,076,231	122.4	-2.6
Deut.Telkm	4,827,530	40.4	-0.4
Bayer	4,146,350	82.50	-0.31
Veba	3,954,597	128.80	-0.4
Hoechst	3,709,512	70.35	-0.9

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Data Mogul	125	+10	+8.7
Sngls Tech	219	+16.9	+8.4
Varta	344	+21	+6.5
Sinel	68	+4	+6.5
Downs			
Wayss & Fry	140.5	-19.5	-12.2
Sud MW	200	-17	-7.8
Kogel Fhr MW	225	-13	-5.5
Vossloh	111	-5.8	-5

UK

	Mar 30	Mar 27	Mar 26	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5911.9	5939.3	5905.6	5997.9	4056.6	5997.9	986.9

Day's high: 5950.4. Day's low: 5874.8

■ LONDON TRADING ACTIVITY — Volume : 650,208,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Tamaris	29,458,570	2¼	
Shell T&T	12,846,930	440¼	[illegible]
Mersey Docks	12,479,320	576½	+3
RJB Mining	10,070,100	101	[illegible]
Glaxo Wll	9,188,097	1558	+18
Woolwich	9,089,008	383½	-15
BT	7,971,682	652	+6½
Next	7,773,219	550	[illegible]
Stand Chart	7,331,617	880	[illegible]
Signet	7,230,809	40¾	+1¾

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Dinkie Heel	21½	+4½	+26.5
Colver	25½	+4½	+21.4
Xaar	139½	+23½	+20.3
Texas (J.)	22½	+3	+15.4
Downs			
Scit&n Media	21	-3½	-14.8
Doratak	18	-3	-13.6
Oxford Bio	15½	-2	-11.4
Primesight	230	-20	-8

INDEX FUTURES

[illegible]

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ STOCK MARKET

3:15 pm March 30

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

3:15 pm March 30

[illegible]

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international operations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

[illegible]

STOCK MARKETS

Asian gloom and Fed worries hit sentiment

WORLD OVERVIEW

Gloomy news from Asia and some nervousness ahead of today's Federal Reserve open market committee meeting kept world stock markets in check yesterday, *writes Philip Coggan.*

The Tokyo market fell again, as last week's reflationary package failed to lift sentiment and the government's share price support operations were apparently ineffective.

A sign of Japan's desperate economic straits emerged in the form of a 3.3 per cent drop in industrial production in February and an expected 2.5 per cent fall in March. The yen weakened on the news, falling below Y132 against the dollar in European trading.

Analysts continue to be fairly gloomy about the prospects for a Japanese recovery. "In the absence of a large permanent tax cut," writes Jeffrey Young of Salomon Smith Barney, "Japan's feeble economic performance is likely to continue through 1999, keeping Japanese bond yields and the yen weak."

"The sense of an economy moving inexorably toward crisis is strong," says Joe Rooney of Lehman Brothers, who has just returned from a visit to the region.

"There is a recognition that fundamental changes to the economic structure are needed, but there is a lack of political will or vision to effect the required changes."

Tokyo's nervousness was transmitted to Hong Kong, while Korea, one of the stronger markets this year, fell on fears of a corporate debt crisis in the second quarter.

However, Japan's problems could have beneficial effects on the rest of the world, says Salomon. "World demand for goods and services will be dampened, helping to reduce global price pressures. At the same time, the lack of attractive investment opportunities within Japan will encourage large private capital outflows, lowering both the cost of funds for industrial countries and the value of the yen."

The US Fed is not expected to raise rates at today's meeting but the market is not yet convinced that the peak in the Fed funds rate has been seen, especially given the strength of employment growth. The Asian crisis has yet to have a substantial slowing effect on the economy, although the trade deficit has started to widen.

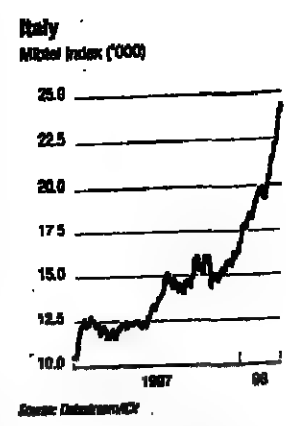
"The balance of probabilities favours the next move in short-term rates being upwards, most likely at the time of the FOMC's half-yearly review of monetary and economic prospects in July," according to London Bond Broking.

London market, Page 38

MARKET FOCUS

Plenty of fizz but no bubble

Italian investors have been cheering the remarkable performance of the Milan stock exchange with the sort of enthusiasm normally reserved for a winning streak by their national football team.



Since the beginning of the year, the broad Mibtel index has gained more than 40 per cent after rising almost 60 per cent in 1997. In the past five years, the "borsa" has notched up a 182 per cent gain in dollar terms, more than Frankfurt's 141 per cent and Wall Street's 145 per cent over the same period.

"Euro-euphoria" gripped the Italian market last week *after Italy was given the* green light to become a founding member of European economic and monetary union. The Mibtel notched up another 5 per cent gain during the week in spite of a 0.32 per cent dip on Friday. Although fund managers and brokers have started showing signs of anxiety with calls for a technical correction, the market shows no sign of losing steam.

The market continued to rise yesterday in contrast to most European markets. "Everybody expected a correction this morning, but we *only saw a small dip before* strong liquidity pushed the market higher," said one Milan broker.

With net Treasury bond yields below 4 per cent and expectations of another cut in the Bank of Italy's discount rate after Italy's formal ratification in Emu on May 2, small investors have continued to switch increasingly from fixed income securities to equities.

Net purchases of Italian equities by mutual funds totalled L4,300bn in January and L3,300bn in February. That compares with a monthly average of L600bn last year.

Support for the bull run has also come from the overall improvement in corporate profits and the restructuring, modernisation and consolidation in the indus*trial and banking sectors.*

A wave of bank mergers has led to record gains in bank stocks while intense restructuring and streamlining in companies such as Olivetti and Pirelli have seen spectacular gains in individual corporate stocks.

Even the fact that price-earnings ratios are close to 30, against an historic average of 16.5, does not appear to have deterred investors.

The last big bubble to hit small investors burst in 1985-86. But the market sees few risks of a repeat. P/e ratios have yet to hit the lev*els of those years, when the* speculative rise in Italian equities was not matched by similar rises elsewhere. Now the market is not rising in isolation but following, indeed exceeding, the trend in Europe and the US.

Italy's entry into Emu, inflation running at an annual rate of 1.8 per cent, prospects of further interest rate falls and new privatisation issues, and heavy liquidity in a country with one of the world's largest savings rates, are all helping the party to continue.

Paul Betts

● This is the first in a series of reports on countries joining the European single currency.

Dow hesitates on earnings, rates concerns

AMERICAS

Renewed concerns about earnings and interest rates set a cautious tone on Wall Street, *writes John Labate in New York.*

"We're about to start a reporting season and I think there is genuine worry about profits," said Hugh Johnson, chief investment officer at First Albany. "Each money manager I talk to has a different reason to worry."

By midday the Dow Jones Industrial Average was off 2.25 to 8,793.83, while the broader Standard & Poor's 500 index was marginally higher at 1,095.71. The technology sector fell back. The Nasdaq composite index came off 3.28 at 1,820.34.

First-quarter profit estimates continue to be scaled back. Adding to the cautious mood was today's meeting of the Federal open market committee.

Although few expect the Fed to raise rates, there is growing concern that the "neutral" bias the Fed adopted late last year will be replaced by one that favours rate tightening.

The latest economic data confirmed that the US economy continues to expand at a robust rate. A morning release on the housing sector reported new home sales up 4.8 per cent in February, well above expectations. This was one reason for a decline of $\frac{1}{8}$ to 102¼ for 30-year bonds where the yield rose to 5.971 per cent.

Among Dow components, Coca-Cola rose $3⅛ to $78¾ after the company said it expected global volumes to rise strongly. Share of Aluminum Company of America fell 1\frac{1}{16}$ to 69\frac{7}{16}$ after Prudential Securities lowered its rating.

Philip Morris gained $¾ to 43\frac{7}{16}$ when the White House made positive comments about tobacco legislation.

Lower bond prices put many financial stocks under pressure. BankAmerica slid $1¾ to $82¼.

Technology stocks were mostly lower as earnings concerns spread. Semiconductor makers were especially weak, with the Philadelphia stock exchange's chip index losing 3.35 to 294.12.

TORONTO made an early attempt to extend last week's record-setting performance but by midsession, the market had found the effort too great and the TSE-300 composite index was 12.43 weaker at 7,610.10.

Against the trend, shares surged in two oil and gas drilling companies as Ensign Resource Services Group and Artisan Corp said they planned to merge in a C$155m cash and stock deal. The combined Ensign and Artisan would have an equity value of about C$725m.

Analysts said the two companies would reap the rewards of being able to offer a more diversified set of services to oil producers.

Ensign, already Canada's second largest contract driller with 18 per cent of the country's rig fleet, jumped C$2.35 to C$33.10. Artisan was C$1.10 higher at C$10.95.

Barrick Gold edged 5 cents higher to C$31.15.

Mexico awaits oil deal

MEXICO CITY was on hold at midsession as the market awaited ratification at Opec's Vienna meeting of a deal to limit oil output. At midday, the IPC index was 33.80 lower at 5,009.29.

Analysts noted that oil accounted for 40 per cent of Mexican government revenues and 10 per cent of the country's exports in 1997.

However, a fall of 40 per cent in crude prices since last October has made a notable dent in Mexico's trade balance and forced the government to implement cuts of almost $3bn from its 1998 budget.

CARACAS was also lower in morning trade as the market awaited the outcome of the Opec meeting.

At midsession, the IBC index was 42.76 lower at 7,612.32.

Telephone monopoly *CANTV edged down 15 boli*vars to 3,135 bolivars with much of the selling coming from US investors.

Motors move Dax up a gear

EUROPE

Positive news in the motor *and chemicals sectors helped* FRANKFURT to edge up from its intra-day lows. The Xetra Dax index stood 2.99 higher at the close of electronic trade at 5,069.89, also supported by a more positive early tone on Wall Street.

In the motor sector, Volkswagen jumped DM54.50 to 1,459 as investors, relieved that it had lost out to BMW in the race to buy Britain's Rolls-Royce Motor Cars from Vickers, stocked up on the shares. Analysts said VW would not have been as good a match as BMW, which rose DM28.50 to DM2,118.50.

In the chemicals sector, BASF rose DM1.70 to DM81.30 as a raft of investment houses upgraded their recommendations on the stock, in the wake of its analysts' conference last week.

PARIS traded narrowly in below-average volume to end little changed. The CAC 40 index closed off 10 at 3,800.23.

Dealers said there was little follow-through from the gains of the previous week. Today's futures expiry was said to have pushed most investors to the sidelines.

Oil shares lost ground after a day of mixed news from Opec. Total came off FFr4 to FFr755 and Elf Aquitaine FFr11 to FFr801, but for the most part the day was relatively trendless.

The main losers were a disparate bunch. Cap Gemini came off FFr29 at FFr719 and Lagardère FFr8.70 at FFr240.30. Among financials, CCF lost FFr16 at FFr500.

FTSE Actuaries Share Indices — European series

March 30 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	p/e ratio	Total return (Ecu)
FTSE Eurotop 300	1212.72	-0.14	-1.71	1.91	5.01	1227.49
FTSE Eurotop 100	2794.96	-0.20	-5.48	-	-	-
FTSE Eurotop 300 Regions						
300 UK	1192.60	+0.08	+1.01	2.80	11.43	1224.85
300 Ex-UK	1224.86	-0.25	-3.25	1.43	1.37	1229.45
300 Eurobloc	1271.89	-0.42	-5.03	1.81	1.92	1298.07
300 Ex-Eurobloc	1223.60	+0.06	+0.67	2.12	7.22	1244.20
FTSE Eurotop 300 Economic Groups						
Resources	1041.80	-0.32	-3.36	2.64	3.88	1060.47
General Industries	1142.82	+0.13	+1.51	1.78	4.19	1157.13
Consumer Goods	1158.02	-0.12	-1.38	1.35	5.48	1184.19
Services	1168.33	+0.36	+4.16	1.35	4.51	1162.26
Utilities	1331.77	+0.04	+0.49	3.32	1.84	1349.92
Financials	1344.24	-0.58	-7.84	1.82	7.03	1359.44

More information on http://www.ftse.com. FTSE and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. [illegible]

Cement leader Lafarge gave up further ground, sliding FFr14 to FFr503 as investors continued to fret about the group's share issue which has been priced at FFr410.

Hotels group Accor rose FFr26 to FFr1,546 and Rhône Poulenc, a strong market last week following plans for a capital reshuffle, added FFr5.80 at FFr307.70.

AMSTERDAM moved lower on broad profit-taking and at the close the AEX index was off 11.84 at 1,129.00 in moderate volume.

Retailer Ahold was the day's biggest casualty, sliding Fl2.10 to Fl167.30 and steel group Hoogovens was also hard hit, moving Fl2.80 lower at Fl100.50.

Among lesser caps, brewer Grolsch was a strong market, rising Fl2.8 to Fl55.5 on talk of a potential takeover bid from Belgian brewing group Interbrew.

Last year Grolsch was the subject of takeover rumours concerning Heineken, the leading Dutch brewer, and yesterday hopes were running high for a three-way bidding contest.

MADRID moved lower with the general index slipping 0.32 to 337.59 with the downside trend marginally outweighing a number of strong features.

Tabacalera gained Pta190 to Pta17,550 after hitting Pta17,780 ahead of the public share offer of the state's remaining 52.4 per cent stake in the tobacco leader due to begin on April 13.

ZURICH closed flat after a day under the influence of contradictory forces. Profit-taking and easing bond markets were marginally outweighed by a firm dollar, together with rises in the banks and Roche. The SMI index finished 6 higher at 7,536.3.

UBS gained SFr26 to SFr2,496 and SBC was SFr5 higher at SFr537 on follow-through buying and positive press comment about the banks' merger plans.

Roche certificates picked up SFr195 to SFr16,350, after having been badly hit last week when the company published disappointing 1997 figures. Novartis slipped SFr11 to SFr2,674.

ABB continued on its upward path with a rise of SFr21 to SFr2,280. BZ Group said on Friday that it held an indirect 5.6 per cent stake in the company.

Nestlé saw profit-taking that sent the shares down SFr18 to SFr2,882.

Among second-tier stocks, SAir Group, which said it was cautiously optimistic for 1998, was down SFr17 to SFr2,1075.

ISTANBUL tumbled 2.8 per cent on renewed concerns that the country could be heading for early elections.

The worries were exacerbated by investors selling up to switch into repurchase agreements based on state securities ahead of a public holiday next week. The IMKB National-100 index closed 90.97 lower at 3,222.79. The market was unsettled by reports that there could be early polls.

Written and edited by Michael Morgan, Jeffrey Brown, Peter Hall and Paul Gregan

Golds lift Johannesburg

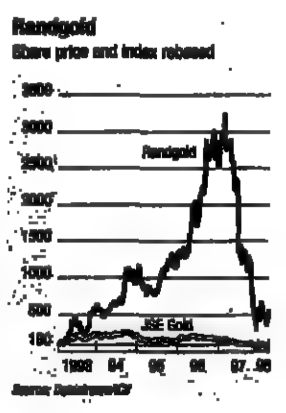
SOUTH AFRICA

Johannesburg recouped early losses to close firmer, helped by a strong gold sector and firm buying ahead of today's unit trust close-out.

The overall index jumped 57.9 to a seven-month high of 7,531.0 as industrials rose 53.8 to 8,777.9 and financials rallied to end 48.1 better at an all-time high of 14,091.2.

Golds surged 53.6 or 7.1 per cent to 806.9, helped by firm bullion. Randgold added to Friday's 18 per cent rise with a jump of 17.2 per cent as the mining house said its *future was under review.*

The shares added 100 cents to 680 cents as hopes grew that an unbundling of the *company would unlock* shareholder value. Liberty Life lost R10 or 5.6 per cent to R170, hit by profit-takers.



Tokyo falls on lack of support

ASIA PACIFIC

Disappointment over the lack of effective government action to support the market led to a sharp fall of almost 3 per cent in TOKYO, *writes Michiyo Nakamoto.*

The Nikkei 225 average fell 476.23 to close at 16,263.04 as investors grew increasingly impatient over the failure of the government to deliver its expected share support operation.

The Nikkei fluctuated between a high of 17,009.89 and a low of 16,238.56 in unenthusiastic trade. In spite of much talk of government action to support the market, there was little evidence of any such activity.

Volume came to only 395m shares, up from 300m on Friday. Losers outnumbered gainers by 791 to 317.

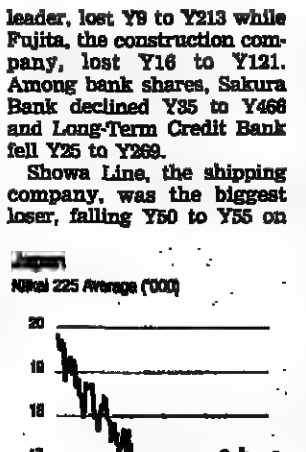
The Topix index of all *first-section issues fell 17.26* at 1,241.27.

Futures selling also hit the index. A large purchase of put options on the futures market at a 14,000 strike price led to a rush of hedging which contributed to the market's steep fall.

Institutional investors dumped bank stocks and steel and construction issues, which are particularly vulnerable to domestic economic activity.

Nippon Steel, the volume leader, lost Y9 to Y213 while Fujita, the construction company, lost Y16 to Y121. Among bank shares, Sakura Bank declined Y35 to Y466 and Long-Term Credit Bank fell Y25 to Y269.

Showa Line, the shipping company, was the biggest loser, falling Y50 to Y55 on news that it was to use part of its capital to wipe out its cumulative losses.



SEOUL dropped 2.8 per cent as retail investors fled the market on fears that another debt crisis may be looming, as a heavy calendar of corporate debt comes due between April and June.

The composite index closed at 482.33, down 13.93, the lowest close of the month.

Analysts said concerns that corporate debt, both foreign and local, would hit the market were stoked by a SBC Warburg Dillon Read report.

However, finance minister Lee Kyu-sung said he saw no corporate debt crisis in the second quarter as he believed private companies would be able to pay the $9.5bn in private debt coming due this year.

Brokers said carmakers took a hit as slumping domestic sales caused inventories to soar, forcing a slowdown in production.

Ssangyong Motor fell 10.5 per cent to Won2,900, Kia Motors lost 8 per cent to Won6,900, Hyundai Motor hit a morning low of Won19,700, down 6.6 per cent, but recovered to close at Won20,900. Asia Motors fell 5.4 per cent to Won1,750.

HONG KONG slid into negative territory in afternoon trade as investors, unnerved by Tokyo's tumble, began to take profits. The Hang Seng index lost 231.74 or 2 per cent to 11,503.76.

Analysts said the market was encouraged by the 25 basis point cut in prime rates delivered by local banks on Friday, but some investors said the cut was smaller than expected.

Turnover finished at HK$8bn compared with Friday's HK$6.6bn.

Index heavyweight HSBC slipped HK$3 to HK$238 but Hang Seng Bank went against the current, gaining 50 cents to HK$76.50. Hopewell Holdings was another winner, adding 10 cents to HK$1.80 ahead of results that came after the market closed.

WELLINGTON fell steeply as blue chips came in for concerted profit-taking. NZ Telecom shed 20 cents to NZ$8.75 and Brierley Investments sagged 4 cents or 3.7 per cent to NZ1.03 after hitting a five-year low of 99 cents at one stage. The 40 capital index ended off 37.79 or 1.6 per cent at 2,303.12.

BANGKOK continued to lose ground ahead of today's announcement of tighter loan and provisioning criteria for financial companies. *The SET index shed 4.76 to* 465.09 as rumours of banking sector share issues continued to dog sentiment. Thai Farmers Bank lost Bt0.50 at Bt77.50.

MANILA moved lower in moderate volume. The composite index lost 27.86 to 2,273.80 with most of the day's action confined to leading stocks.

Ayala Corp came off 75 centavos at 17.75 pesos and Ayala Land gave up 75 centavos at 18.75 pesos.

BRUSSELS REGION

The city's new-found wealth has failed to ease its legacy of internal tensions, writes **Neil Buckley**

Europe's capital faces a multifaceted challenge

If ever a city deserved to be called a social experiment, it is Brussels. As a largely French-speaking island in a Dutch-speaking region, it has attempted in its 168 years as the Belgian capital to unite two communities with different languages, cultures, traditions, and personalities.

For 40 years, it has conducted a similar experiment on a far bigger scale, trying to create a multilingual, multicultural city that is the administrative and political centre of a union of 15 states.

The accident of history that turned this small city into the "Capital of Europe" has brought many benefits. So, too, has its position at the heart of one of the most densely-populated areas of the European single market.

The influx of diplomats, civil servants, lobbyists, consultants, lawyers, trade associations, non-governmental organisations and businesses that has accompanied the development of the European Union has helped the Brussels region to become the third-richest in Europe, in terms of wealth generated per capita.

The city-region, created in 1989 as one of the three regions making up today's federal Belgium, comprises only 161 sq km and only 9.3 per cent of the national population. However, it accounts for 17.6 per cent of national employment, 18.3 per cent of all exports, a quarter of investments, and almost 20 per cent of Belgian business turnover.

The presence not just of the EU, but the headquarters of the North Atlantic Treaty Organisation and 56 other inter-governmental organisations, has helped attract 2,200 foreign companies into the region.

A study by Mens en Ruimte, a Brussels consultancy, in 1992 – currently being updated – found that the then 12-nation EU pumped almost BFr100bn a year into the regional economy, equivalent to more than 10 per cent of gross regional product. More recent figures from the Belgian National Bank put the EU contribution at BFr165bn.

But this international influx has also imposed strains on a city still struggling to come to terms with its own domestic problems and complex historical legacy. Its new-found wealth and influence has not eased the tensions between its communities.

Not only are there continuing squabbles between French-speakers, making up 85 per cent of the regional population, and the Dutch-speaking minority, but the Brussels region has an immigrant population nearing 30 per cent of the total.

There are sizeable communities from eastern Europe, Turkey, Morocco, and Africa – particularly Congo, reflecting Belgium's colonial past. The 950,000 regional population includes 150,000 Moslems.

The corps of well-paid diplomats and Eurocrats adds an extra dimension to the problem, resulting in sharp disparities between the wealthy and less privileged parts of the city.

As Jos Chabert, regional economy minister, points out, Brussels' richest communes, or municipal districts, have average incomes three times higher – and unemployment three times lower – than the poorest.

Social unrest sometimes results. Last year there were riots among the immigrant population in the disadvantaged western commune of Anderlecht.

The problems are exacerbated by a legacy of poor planning, underfunding and under-investment from the days before Brussels had a regional authority.

Although the Brussels Agglomeration was created in 1970 to handle problems common to the city's 19 communes, including ambulance, fire and waste disposal services, its scope was limited. Only in 1989 did the city became a region with its own five-minister government and 75-seat parliament.

Its status was reinforced by the Belgian state reforms of 1993, which put what is officially called the Brussels-Capital Region on the same constitutional footing as the larger regions of Dutch-speaking Flanders and French-speaking Wallonia.

Giving the city its own government has proved a turning point. Charles Picqué, minister-president, has introduced a regional development plan, including, for the first time, a coherent zoning policy.

He also plans to redevelop the run-down former industrial area around the canal running through the west part of the city.

Mr Chabert in 1996 unveiled the 50-point "Dynamo" plan to stimulate the regional economy, both by attracting foreign investors and improving the business environment for home-grown companies.

Spending has increased on environmental projects to improve air and water quality. And Brussels' communes, once close to collapse under a debt burden of almost BFr60bn ($1.6bn), have largely managed to pay off their debts, partly through last year's flotation of the municipally-owned bank Crédit Communal de Belgique.

But Mr Picqué complains that the region is still underfunded. It accounts for 35 per cent of Belgium's corporate taxation but this all goes to the state. Brussels itself does not get a fair return.

"It is one of Belgium's great historical fortunes that Brussels should have been designated an international capital by Europe," he says. "But people have not always understood how much Belgium's economic development is due to Brussels." Mr Picqué adds that demands for an annual grant from central government, reflecting both Brussels' contribution to the national coffers and its special needs, will be an important part of the next round of negotiations – due next year – on constitutional reforms.

Demands may come from other quarters for a more radical reappraisal of Brussels' status within Belgium.

The linguistic and cultural divide running through state and capital still hampers good governance of the city. The delicate political consensus that has prevailed since 1989 was recently shattered by a dispute over Flemish calls for a language split of 70 per cent francophone and 30 per cent Dutch-speaking in future appointments to the fire brigade and administrative departments. This goes beyond the 85-15 split in the Brussels population at large.

One of Europe's richest regions – the glittering side of Brussels' life

Impact Photos

A senior Flemish official to the regional government resigned, complaining of "pro-francophone bias", when the demands were not met exactly.

A similar row in six Flemish communes bordering the Brussels-Capital Region itself has caused national controversy. Leo Peeters, the Flemish interior minister, last year ordered them to stop using French in official business.

The order, thrown out by the districts' mayors, challenged their constitutional status as "facility communes" where the official use of both languages is permitted. Linguistic squabbles have also dogged Brussels' preparations to be a European Culture Capital in 2000, prompting the resignation of one of the project directors last week.

The electorate is also increasingly radicalised. Regional elections in 1995 saw the National Front win four of the 65 seats reserved for francophone parties; the far-right Vlaams Blok won two of 10 seats reserved for Flemish parties.

With a break-up of Belgium no longer unthinkable, Brussels finds itself, uncomfortably, at the centre of the debate. One view is that if Flanders and Wallonia were to gain independence, Brussels' geographical position means it should be part of any future Flemish state. Some political commentators have called the city Flanders' "Jerusalem".

The opposing view is that since Brussels is largely French-speaking, the only solution would be to make it an independent city-state, "Capital of Europe".

Some – including Louis Tobback, president of the Flemish Socialist party – have suggested that to get round today's intra-community squabbles and pre-empt any break-up of Belgium, Brussels should even now become a self-governing, self-financing city state, in whose governance "Europe" - or the EU institutions - would have a say. Such a project has been nicknamed "Brussels DC".

Mr Picqué firmly rejects the idea of Brussels DC, warning that Brussels owes its position as European capital at least in part to the fact that it is the Belgian capital.

Such a move would also represent a broader failure of the Belgian social experiment, he adds, and bode ill for the whole European project.

"It would be a tragedy if the capital of Europe became a symbol of cultural division. It would be a real paradox - it seems an unimaginable paradox, though the risk is there," he says.

"If Belgium exploded tomorrow, Brussels would have to find a future as a European city-state, but we are not at that stage. The best scenario is to remain both European capital, and the Belgian capital."

FINANCE • by Michael Smith

Core of growing influence

A robust grouping of financial institutions has been attracted to the city

Brussels will never match London or Frankfurt as a financial centre but it has robust institutions for securities trading, and their influence is growing.

Although Belgium is one of Europe's smallest countries, its stock exchange ranks alongside bourses of other, larger countries.

The market capitalisation of Belgian companies quoted on the stock exchange is 57 per cent of the country's gross national product, higher, it says, than both Paris and Frankfurt.

It is planning to merge with Belfox, the city's six-year-old futures and options exchange, and with CIK, securities depositary for the Belgian market, to create Brussels Exchanges.

Brussels is also home to Easdaq, a pan-European stock exchange aimed mainly at fast-growing young companies involved in niche markets, and to Euroclear, a settlements system for internationally traded securities.

Their presence is appropriate in a city where some 65 foreign banks have offices.

They and other financial services activities are attracted to Brussels' geographical location at the heart of Europe, the presence of the European Union institutions and a large international community.

At the centre of the Belgian financial system is the Brussels stock exchange, set up in 1801 and the reference market for 150 Belgian companies. About the same number of foreign companies are also traded on the exchange.

As in other European countries, the Belgian exchange is benefiting from a sharp rise in the value of companies and the Bel 20 index of blue chip stocks last week reached the 3,000 index mark for the first time.

Ann Vleminckx, the exchange's vice-chairman, detects a change in Belgian attitudes towards investment. "Institutional investors are becoming more important and more and more pension funds are being created.

"With interest rates low, private investors have also discovered the stock exchange and increasing numbers of companies are thinking of raising money through the equity route."

Average daily trading on the exchange has increased from BFr3bn in 1996 to BFr6.6bn so far this year.

Last year the exchange attracted 13 new members and it expects a similar number, or more, to list this year, which should be enough to increase the total listings in spite of takeovers of Belgian companies by foreign concerns.

"The big question is whether the change in the Belgian equity culture is sufficient to resist a market downturn," says Mrs Vleminckx. "We will not have have a bull market for ever."

The exchange is preparing for the future with a series of alliances, starting three months ago with a merger with the Antwerp exchange where five companies are listed.

It has struck an alliance with the other Benelux exchanges of Luxembourg and Amsterdam which will give members better access to each others' markets.

The Brussels bourse is also participating in the Euro.NM exchange, a new market for fast-growing companies, along with Paris, Amsterdam and Frankfurt. Four of the 70 companies with listings on Euro.NM are Belgian.

The merger with Belfox and the CIK is prompted by the globalisation of markets and the need for individual countries to adopt a more coherent and integrated approach.

Jos Schmidt, Belfox president, says his organisation was established as a separate organisation in the early 1990s because it needed a specialised focus and staff.

The stock exchange had experimented with futures and options but without real success. Last year some 3.5m contracts were traded on Belfox with equities-based deals in the ascendancy.

Mr Schmidt says Europeans can no longer look at markets in a national or domestic way. "We have to be more international and that requires working with a single strategy." He expects the Brussels Exchanges to form more alliances, in addition to those already planned.

Easdaq has an even shorter track record than Belfox, having set up for business in November 1996. There are only five Belgian companies listed on it. Its aim, however, is not to compete with the Belgian bourse but to be a pan-European exchange, filling the same kind of niche that Nasdaq carved out in the US by appealing to growing, often high technology, companies.

The exchange chose Brussels for its European headquarters partly for technical reasons. Belgium was one of the first countries to adopt the European Union's investment services directive and this provided it with the certainty it needed to plan for its future.

Belgium also appealed because of its size. "If we had gone to Paris we would have been associated by people from other countries with the market places there – and the same in Frankfurt," says Jack Putzeys, chief executive. "Choosing Belgium was easy because it is a small country. Nobody has an ego."

Easdaq lists 25 companies with a total market capitalisation of $10.5bn, 10 of which have dual listings on Nasdaq. Overall the Easdaq index is up more than 120 per cent since December 31 1996.

Mr Putzeys concedes Easdaq has fewer listed companies than targeted for but says the quality of the companies and the average market capitalisation is higher than he expected. Turnover is increasing every day, he says, and the value of shares traded reached $61m at its peak.

Euroclear, established in Brussels 30 years ago, deals with larger sums. It is the world's largest settlement system for internationally traded securities and says that last year the value of securities settled within it was $35,000bn.

It enables securities professionals, including most of the world's commercial banks, to exchange securities for cash in a risk-controlled environment.

Euroclear is expanding, having increased its Brussels staff by 50 per cent to 1,200 in the past three years. Projects this year include the establishment of "real-time settlement" from June.

PROFILE: CHARLES PICQUÉ • by Neil Buckley

A strong voice within the state

To deny the city's multicultural role is 'a colossal historical error'

Charles Picqué: region's minister-president

Charles Picqué has become almost the symbol of Brussels. He has been minister-president of the Brussels-Capital Region, one of Belgium's three federal regions, since its creation nine years ago, as well as mayor of one of its 19 local authorities.

But he insists that he remains a Belgian. In the intensifying debate on the future of Belgium, he does not advocate the creation of a "Brussels DC", an independent city-state, capital of Europe, as some opponents and colleagues do.

The man once described as Belgium's "next prime minister but two" has indicated he will step down from his regional job next year - after 10 years - to stand for election as a deputy in the national parliament.

It is time, he says, to give Brussels a stronger voice in that forum. But he will be arguing for Brussels' place within the Belgian state, not outside it.

"We want Brussels to remain a *fédérateur*, or unionist, part of Belgium," he says. "I don't share these separatist, regionalist views." A break-up of Belgium could even lead to Brussels losing its broader European role, he warns.

"We have to be aware that if Belgium explodes, Brussels might not remain the European capital. We are the European capital partly thanks to the fact that we are capital of a state."

Those, particularly in Flanders, Belgium's Dutch-speaking northern region, who advocate the break-up of Belgium underestimate the contribution Brussels makes to the country's wealth - and how that contribution could be undermined if Brussels' European role were weakened.

"Brussels has for a long time been the unloved child of Belgium," he says, "because the Flemings regarded it as a francophone city, and the Walloons (in Belgium's French-speaking southern region) as the incarnation of the centralism of the Belgian state." This explains what Mr Picqué calls the "*Bruxello-Belge* misunderstanding".

"Wallonia and Flanders have not always realised Brussels' importance to their own development."

But an important part of Mr Picqué's policy for the region is ensuring it receives a fair share of the wealth it creates. Measured by GDP per head, Brussels is the third-wealthiest region in the EU but elements of the organisation of the Belgian federal state leave the city disadvantaged.

One problem is that although 35 per cent of Belgium's corporate taxes are generated in Brussels, they go directly into the national coffers to fund federally organised services. This leaves Brussels with insufficient locally-raised means to fund its role as Capital of Europe.

"One of Brussels' malaises is perhaps that the national state has not sufficiently taken into account the burden Brussels has assumed in its role as an international city," says Mr Picqué.

At the same time, the boundaries of the city-region were tightly drawn when it was created in 1989 - it is a mere 161 sq km - to avoid clashes with the Flemings and Walloons.

The problem is that increasing numbers of people commute into the region to work and use Brussels-funded services but live and pay their taxes, outside. As the wealthy move out to the leafy suburbs, they are often replaced by poorer or unemployed arrivals who reduce average income levels within the Brussels region.

Imposing some kind of city tax on the *navetteurs* or commuters is not an option, Mr Picqué concedes. Instead he is seeking to claw back some of the region's corporate taxation in the form of an annual grant from central government.

This, he adds, will be one of Brussels' main targets in the next round of talks on constitutional reform, due to start next year. It is a demand unlikely to go down well in Flanders or Wallonia.

The influx into the city of low-income immigrants from surrounding regions, and other countries, imposes other demands. One is to improve training and education to ensure the demands of Brussels' mainly tertiary-sector economy for skilled workers can be met from within the region.

Another is to prevent conflicts in one of Europe's most multicultural cities. With a 30 per cent non-Belgian population, Brussels has a higher proportion of immigrants than most other European capitals.

Alongside the diplomats and Eurocrats are sizeable communities from Africa, Turkey, Morocco and Poland.

The region must fight against social exclusion by ensuring it provides adequate housing and services.

But Mr Picqué knows one of his biggest tasks is "marketing" the region abroad, attracting not only investors and business people, but tourists.

Above all, after nine years in the job, he still confronts the elusive goal of giving a city famous for its faceless bureaucrats an "image".

"We do have an image problem," he admits, "which is not to say that we don't have attractions. People see Brussels as a business city and a decision-making centre which is economically important. They see the pleasures of the city mainly in terms of its gastronomy.

"Where we must make an effort is to sell our cultural life," he adds.

The Brussels 2000 project, when the city will be one of nine European Capitals of Culture, is vital to the region's promotional efforts.

It will also be an important test of the ability of the city's two linguistic communities - which run many of their cultural facilities separately - to organise a joint event that portrays Brussels in the best light, without damaging disputes.

Such a test mirrors a broader one that the Brussels minister-president believes his country is going through.

"I think Belgium is undergoing a test at the moment, and Brussels is at the heart of that test," says Mr Picqué.

"It's a bilingual region, and we have to show the capacity of Flemings and francophones to work together, against the background of a cosmopolitan and multicultural city.

"Even if it is a city where 65 per cent of the population speaks French, it's a city where those who try to deny its multicultural role make a colossal historical error. It's Brussels' role to be a multicultural city."

TRANSPORT • by Derek Blyth

Fast-track route to a European rail hub

The link between Brussels and Paris has become the jewel in the Thalys crown

At the cutting edge. Thirty minutes has been lopped off the Eurostar journey to London

Brussels has been at the leading edge of rail travel since the first train on continental Europe rumbled along the line between Brussels and Mechelen in 1835.

Much of the historic heart of Brussels was bulldozed between 1911 and 1953 to build an underground junction linking the Gare du Nord, Gare Centrale, and Gare du Midi, which has helped turn Brussels into a European rail hub, with routes radiating across northern Europe.

The city has recently strengthened its role as a hub by investing BFr150bn in high-speed technology. A new 70km dedicated track was opened last December between Brussels and Lille, in northern France, to plug Brussels into the French TGV network.

This fast track has lopped 30 minutes off the journey by Eurostar to London, reducing it to two hours and 40 minutes, which is 30 minutes faster than the London-Paris trip.

The Belgian link allows sleek new Thalys trains – the latest TGVs run by a consortium of Belgian, French, Dutch and German railways – to run between Paris and Brussels in only one hour 25 minutes, halving the three hour journey time of only a few years ago.

Five million passengers have travelled on the Thalys Paris service since it began in mid-1996. The route is now served by 16 trains trains a day in each direction. A businessman can take the 7.10am train from Brussels and be in Paris by 8.35am.

With no passport controls to slow things down – thanks to the Schengen treaty removing intra-EU border controls – it is possible to schedule a 9am meeting in Paris without the need for an overnight stay.

Thalys is also making Paris an easy day-trip from Brussels, with tourists making up about 65 per cent of passengers. Parisians call it the "Thalys effect".

The Eurostar and Thalys links put Brussels at the heart of one of the world's most advanced rail transport systems, capitalising on its central position in Europe's single market.

They have also been a boost to rail travel. After years of declining sales, the Belgian rail authorities can scarcely believe the latest passenger figures.

The old trains between Brussels and Paris took just under a quarter of the whole market in 1994, while Thalys scooped up 43 per cent of the business in 1997, with most of the gain coming from car users switching to trains.

An average of 70 per cent of seats on Thalys trains are now occupied. This is in marked contrast to the early days of Eurostar, when many trains on the Brussels to London route were empty - although Eurostar figures are also improving. The Brussels-to-Paris link has become the jewel in the Thalys crown, bringing in 70 per cent of the consortium's income.

The Thalys network radiates from Brussels to Paris, Amsterdam, Cologne and Ostend. The Paris-to-Brussels link is the only one that allows trains to travel at maximum speed, but the other two main links in Belgium are now being built for high-speed travel to Antwerp and Liège.

A proposed high-speed route north from Antwerp to Amsterdam is in question due to opposition from Dutch environmental groups, and the problems of building a line in the overcrowded Randstad region.

But in Brussels the future is taking shape at speed. The ageing Gare du Nord has been given a facelift to match its new status at the heart of the high-speed network. It now has an airport-style departure lounge, Italian coffee shops and gleaming booking hall.

The success of Thalys and Eurostar has convinced the Belgian rail authority that Brussels will need a second high-speed station by 2015 at the latest.

They are considering upgrading the 19th-century Gare de Schaerbeek, north of the city centre, into a high-speed station with a link to nearby Zaventem airport.

> The main problem for the city is the daily tail-back of commuters

Plans under consideration would allow air passengers to check in at the rail terminal. But the TGV station is likely to meet fierce opposition from environmental groups concerned about the destruction of a nearby nature reserve and from local residents who want to preserve their leafy suburban neighbourhood.

Brussels' international airport, Zaventem, is also an important part of the city's international transport network. It is barely 30 minutes away by train or taxi, making it one of the closest airports to the city centre of any European capital, even though it is beyond the boundary of the Brussels Region.

Construction of a new terminal in the 1990s has allowed the airport to increase the number of passengers handled to 15m in 1997, an 18 per cent year-on-year increase. Business travellers make up 70 per cent of the total.

Moves underway to merge the two authorities which manage different aspects of the airport, the Brussels Airport Terminal Company and the state-owned Régie des Voies Aériennes (air transport authority), into a single semi-private entity should also improve the efficiency of the airport management.

Brussels is also developing its internal public transport and urging people to leave their cars at home. The region already has five metro lines and a tram network, as well as a bus network.

Ultra-modern T2000 trams have been introduced on two lines linking the city centre with outlying business districts in a bid to persuade the business community to switch to public transport.

But the main problem confronting the city is the daily tail-back of commuters driving into the city. Some 300,000 people - about half the total workforce - commute into Brussels daily and most of them use cars.

The Brussels region launched the so-called Iris Plan last year in a bid to develop a rational transport policy that would improve quality of life.

One aim is to create a rapid urban rail network, similar to the Réseau Express Régional of Paris, which may be running on existing tracks by 2008.

The Region has been less energetic in promoting cycling and walking. Under the Iris Plan, the proportion of bicycle journeys was meant to rise from 2 per cent of total public transport needs to 10 per cent by 2005, through creation of a 200km network of 19 dedicated cycle lanes.

Environmental groups, however, complain that no progress has been made on creating these routes. Some aspects of Brussels transport policy are still stuck in the slow lane.

هكذا من الأصل

PROPERTY • by Neil Buckley

Expanding EU underpins market

There is a quiet optimism in the market that things are set to improve

Appropriately for a city sometimes lampooned for the size of its bureaucrat population, Brussels has more office space per head than any other European capital.

But its normally healthy property market has been struggling for several years. Now, however, there are signs of a recovery. Gross take-up of office space was more than 600,000m² last year - compared with the region's total office stock of about 10m m² - a new record, and well above the annual average of 300,000-400,000m² of the early 1990s.

Property specialists caution against premature celebrations. More than 100,000m² of the total was accounted for by a single pre-let, of the famous star-shaped Berlaymont building by the European Commission.

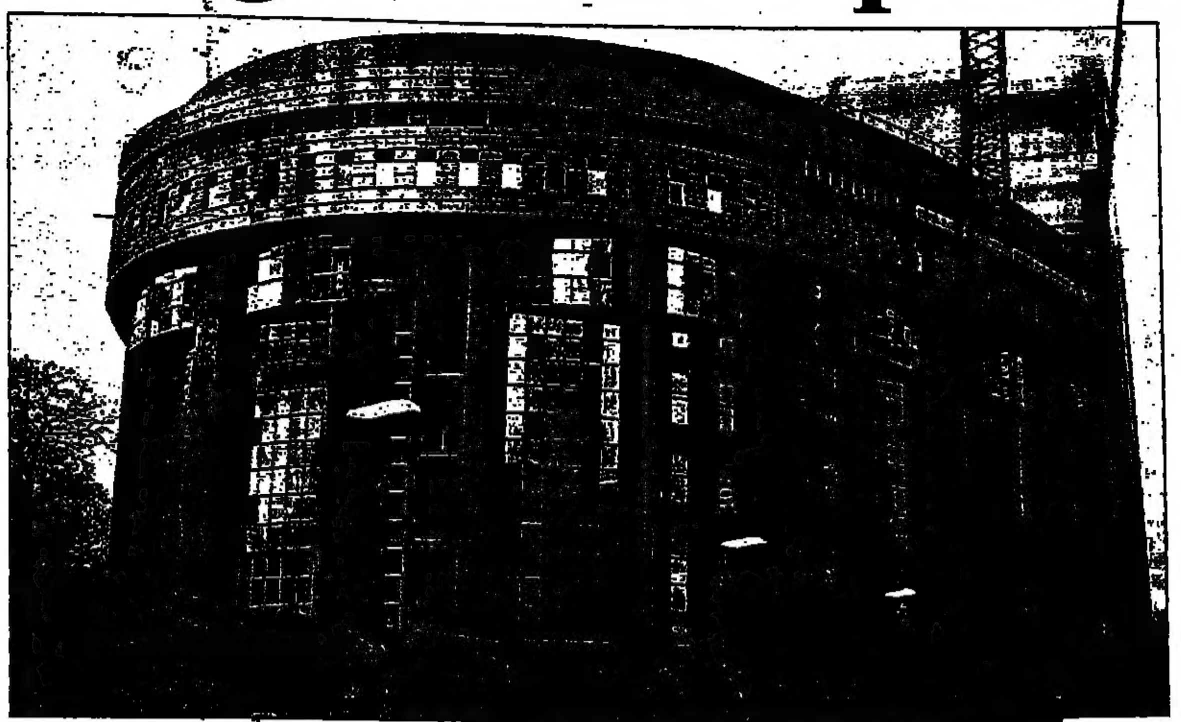
The EU executive moved out of the building, which had become its symbol in 1992, so that some 3,000 tonnes of asbestos to be stripped from the ceilings of the 1968 structure. It is due to move back into the refitted building early in the next decade.

Net take-up was only about 170,000m² last year, of which more than two-thirds was accounted for by the letting of the new home of the European Parliament, the Espace Léopold.

Availability remained stuck obstinately around the 8 per cent mark. But Jean-Claude Vandecauter, general manager of the Brussels office of Knight Frank, believes his next half-year availability figures will show a fall for the first time in several years.

"It will be nominal, but at least if it happens it will be the first trend," he says.

Recession, high interest rates, and cutbacks in spending by EU countries striving to meet the Maastricht criteria for membership of the single currency all made 1993 to 1995, in the words of one property agent, "dreadful" years for lettings.



Building up the European Union presence. The property market is likely to benefit from the EU's expansion *Impact Photos*

But there is quiet optimism in the market that things are set to improve.

"There was really a very difficult period, but 1997 picked up nicely, and 1998 has been incredible so far," says Camille Caudron, director of lettings and sales at DTZ Debenham Winssinger.

He adds that the elements are in place for a continued recovery: faster economic growth (forecast at 2.9 per cent for Belgium this year), falling unemployment, a rise in consumption in the final quarter of 1997, and lower interest rates.

Demand in the coming years should also be underpinned by the European Union - the city's single biggest tenant.

Even after moving back into the Berlaymont in a few years' time, the European Commission has already projected it will need at least another 177,500m² of space before 2005.

Preparations to enlarge the Union from 15 to 21 members are also likely to increase demand with, according to some estimates, each new country that joins the EU stimulating demand for up to 200,000m² of space.

Another factor that could help the market is that, thanks to the efforts of Erkki Liikanen, E[...]ean Commissioner for p[...]nnel, administration a[...]uildings, the EU institut[...] have for the first time s[...]d planning a coherent, [...]-term buildings policy.

This inc[...] taking buildings of [...] 10,000m² or more. Mo[...]portantly, the EU instit[...]s are moving away fro[...]he "three-six-nine" lea[...] common in the Belgian [...]perty market which all[...]or rent reviews every thr[...]ears.

Instead[...]ey are signing so-calle[...] *emphytéose* long-term[...]als of at least 27 years, u[...]y with the right to buy a[...] end, for a symbolic Euro 1.

Rents are fixed in ecus, to be converted into euros when the single currency arrives next year.

Several leases signed by the European Commission last December were later securitised and sold on the financial markets - believed to be the first time leases with a big international institution have been securitised.

Pierfrancesco Pozzi Rocco, managing director of DTZ in Brussels - which arranged several of the securitisations - says these were made possible by the *emphytéose* leases.

Not only can these not be broken, providing security of income, they also provide for present and future tax liabilities - as well as repair and insurance costs - to be borne by the occupier, plus repair and insurance costs. That makes them "triple net" leases - net of tax, insurance and repair costs.

"The EU wanted to avoid rental reviews every three years," he says. "Investors, on the other hand, get a stable long-term investment. It's a win-win situation."

More investors are expected to come back into the Brussels property market generally, as the boom in equity and bond markets encourages them to spread their risks.

Healthier demand and falling availability rates are expected to push up rents - but these will still remain well below those of most other European capitals.

Rents on new prime office space in the Quartier Léopold, are between BFr8,000 and BFr8,500 per sq m per year, while those in "green belt" locations on the southern and eastern edge of the city are BFr7,250-BFr7,750.

That puts them at only a third of rents in the City of London, or half the peak levels in central Paris, and roughly on a par with Madrid - and even cheaper than Lisbon.

Opinions differ as to why Brussels has been such a cheap location for rents - despite the stimulus given to demand by the EU and other international institutions.

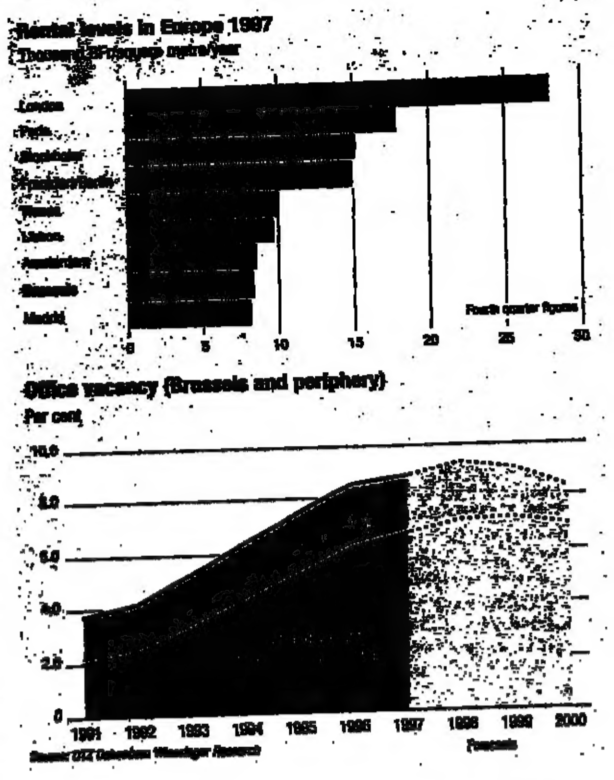
Some suggest the steady evolution of the EU, with enlargements usually known about well in advance, has allowed developers to keep up with demand. This has avoided the wild 30-40 per cent swings in rents seen in cities such as London.

But this did not hold true in the 1970s, which saw huge office over-supply fuelled by lax planning rules.

Others say that Brussels, while offering many attractions and a high quality of living, is not perceived to have the "magic" of locations such as London or Paris.

Mr Vandecauter of Knight Frank suggests that rents are kept down partly by the high levels of corporate taxation and non-wage labour costs in Belgium.

With the other cost burdens they shoulder, businesses are unwilling - and unable - to pay high rents.



BRUSSELS AND THE EU • by Neil Buckley

Moves to smooth cohabitation

EU buildings in the city have been dogged by poor planning and by disputes

Soon after he arrived in Brussels, Erkki Liikanen, European commissioner for personnel, administration and buildings, was taken by friends to see a film shot in the Quartier Léopold - now Brussels' "European quarter" - just after the second world war. It was a revelation.

"I realised then that the war did not destroy the Quartier Léopold," he says. "People did."

Visitors to Brussels often expect to see an elegant European Union quarter, Europe's equivalent of Washington DC. They find instead a soulless, administrative district where drab office blocks have replaced the 19th-century town houses, dotted with cranes and building sites and criss-crossed by six-lane highways that make getting around on foot a potentially life-threatening activity.

Despite the economic benefits the EU has brought to Brussels, integrating its institutions into the city's fabric has been dogged by poor planning, insensitive development, and bickering. Typical is the dispute over parking spaces beneath the European Parliament's soaring, $1bn new headquarters, the Espace Léopold, which has become a symbol of EU excess, and the problems between the Union and its adopted city.

In autumn 1996, the Brussels environmental authority barred parliament from using all 2,300 spaces beneath its new home because to do so could gridlock surrounding streets for hours each day and asphyxiate the local population. It restricted parliament to 900 spaces.

The dispute rumbled on for months, delaying the planned April 1 move into the new complex last year, and the signing of the definitive 27-year lease, worth BFr32bn, on the complex.

Eventually the Brussels authorities overruled the environmental institute's original findings, allowing parliament to use up to 1,800 spaces daily, and all 2,300 in special circumstances, such as during an EU summit. Angry local residents said that effectively gave parliament the green light to use the full car park whenever it chose, and was yet another example of an EU institution being allowed to bend the law.

In fact, the car park dispute was only the latest in the troubled 10-year history of the parliament building.

A 19th-century brewery, park land, and some of Brussels' finest old houses - the heart of an artistic quarter that once boasted sculptor Auguste Rodin among its residents - were razed to make room for it.

The building project, originally disguised as an "international congress centre", was an important part of the then prime minister Wilfried Martens' strategy to ensure Brussels was chosen as permanent home for all the EU institutions, including the parliament - and to ward off a challenge from Strasbourg for the latter.

But parliament has not been alone in having problems. The bulky pink granite Justus Lipsius building, home of the Council of Ministers and nicknamed the "Kremlin" by one local minister, took so long to plan and build that by the time it was opened in 1995, it was already too small. It was planned for 12 EU member states; by 1995, there were 15.

> For the first time a 10-year property plan has been adopted

Last year, the Council discovered that neighbouring land long earmarked for its expansion had been sold without its knowledge to developers by the Belgian state - ironically as part of plans to reduce national debt to meet the Maastricht criteria for monetary union.

As for the European Commission, it famously had to move out of the X-shaped Berlaymont building - for many people, the symbol of the EU - when it was found to be full of asbestos.

Annemarie Renard-Deckmyn, deputy director of the Brussels-Europe Liaison office, an information and assistance point for international officials and bodies coming to the city, admits relations have not been easy.

"Local people have had to deal with the concretisation of the European idea," she says. "People have had to leave their homes because the EU needs offices."

Each side blames the other. The EU institutions say the labyrinthine and the frequently-changing structure of Belgian government meant they never had one clear partner to deal with on development and planning.

Hervé Hasquin, Brussels regional minister for land management, blames the EU bodies for short-termism and failure to co-ordinate among themselves.

But both sides point to the failure of European ministers to designate Brussels the permanent home of the EU institutions until the Edinburgh summit of 1992, making long-term planning difficult.

Charles Picqué, regional minister-president, says this, coupled with a diplomatic circumspection about Brussels' European ambitions, led to an ad hoc approach to development.

"The Belgian policy was always to say we are going to become European capital without making too many proclamations," he says. "Such a low-profile approach has consequences, because you can't develop a long-term, coherent schema."

Efforts are under way to regenerate the Quartier Léopold and create a European capital worthy of the name.

Commissioner Liikanen has, for the first-time, adopted a 10-year property plan.

This includes a switch to long-term leases on buildings, a freeze on further expansion within the Léopold area, and a policy of constructing buildings in harmony with surroundings and efficient in their use of space. He is pushing the other EU institutions to follow suit.

Mr Liikanen and Mr Hasquin of the Brussels region have jointly launched an architectural competition to design a *sentier de l'Europe* or pedestrian route linking the EU buildings.

The Brussels region is also putting money into renovating the area, and the Belgian state is providing funds to help deal with the urban blight in the streets around the European Parliament.

The Berlaymont is supposed to be symbolic of the new approach.

Officials insist it will emerge from the white sheeting that has shrouded it for six years completely refitted and reclad as an elegant energy-saving and environmentally-friendly building.

Some experts feel the initiatives have come too late; too many residents have left the area, and attracting them and small businesses back will be difficult.

But as Jean-Claude Vandecauter, head of the Brussels office of Knight Frank, says: "What is important is that Mr Liikanen has managed to turn the engine. He has got everybody talking."

LOBBYING • by Emma Tucker

Honeypot for presure groups

Lobbyists regard it as essential to be near the decision-making process

Up to 10,000 lobbyists have made Brussels their home, according to the Brussels Regional government – a figure that is hardly surprising given that the city is home to the European Union's principal institutions.

The European Commission, the Council of Ministers and above all the European Parliament act as a honeypot to consultants, lawyers and lobbyists, who over the past 20 years, have recognised the importance of Brussels as a place where critical policy decisions are taken.

As Elizabeth Crossick of Freshfields, the British legal firm says: "While the phone and the fax work well, there is no substitute for being on the ground, close to the decision-making process."

Apart from the EU bodies, Brussels also houses the North Atlantic Treaty Organisation, the Western European Union, the Customs Co-operation Council, the General Secretariat of the Benelux Economic Union and Eurocontrol.

The result is a disproportionately high number of international companies and organisations for a city which is very small, despite its political importance.

On the lobbying side, the interests represented range from trades unions to employers' organisations, and from agriculture to banking. International non-governmental organisations have proliferated, with Belgium topping the league of countries in which these organisations have established secretariats.

This flourishing industry has grown alongside the gradual shifting of powers away from national governments to the European Union. Industries in particular want a presence in Brussels to influence the drawing up of EU laws – or directives – which could have an impact on their businesses.

Many lobbyists start by seeking access to the Commission, responsible for writing the draft laws, but most concentrate on the parliament whose increased role in decision-making allows it to amend many proposals.

Thus when the parliament recently began work on a draft directive for EU-wide rules on consumer goods guarantees it was besieged by lobbyists.

These included Beuc, the European Consumers' Organisation, Eurocommerce, the retailers' and wholesalers' lobby, plus industry associations of electronic and white goods manufacturers.

The Commission's role as Europe's chief competition watchdog, as well as the influence it has over trade matters, has encouraged lawyers and companies to send representatives to Brussels to find out how the Br; machine works.

Brussels regional auty says there has bee explosion in the nuof offices representing pean regions. They esta footholds in order to l for the substantial regiunds distributed by the bean Commission.

Foe companies and govent authorities that are rented in Brussels there a host of consultanciet have recognised the inance of establishing bhes at the European l.

Consnts and satellite bureauny European and multinnal companies have alade the Belgian capital e to their European hearters, enticed not only the EU institutions, buo by Brussels' central gaphic location.

Foreigmpanies which have basheir European operatioin Brussels include 5JS companies, 433 Frenc44 Dutch, 184 British, German, 146 Swedish, Japanese, 73 Swiss, 87 Italian, 49 Spanish, 39 Portuguese, 34 Canadian, 21 Finnish and 12 Norwegian.

Big names include Mobil Polymers, Mitsubishi Bank, IBM, Bayer, Ericsson, Citicorp, ICI, 3M, and Exxon Chemicals.

Brussels' attractions go beyond its role as Europe's capital. Rental prices for office space are extremely competitive. Out of nine European capitals including London, Paris, Frankfurt and Amsterdam, the Belgian capital, along with Madrid, has the lowest rental levels for prime office space.

There are other attractions such as the high level of language proficiency among Belgians as well as impressive skills and qualifications. In addition, the Belgian government has taken no chances and set up special tax regimes designed to lure company headquarters and subsidiaries of multinationals.

The tax package was developed in the 1980s to maximise Belgium's attractiveness as a European centre. Multinationals, for example, can carry out a large number of financial and other operations virtually tax free.

Subsidiaries of foreign companies and companies governed by Belgian law are recognised as co-ordination centres by the Belgian ministry of finance. The privilege lasts for 10 years and is renewable.

Special tax arrangements also apply to distribution centres and call centres.

Although these arrangements were originally given the blessing of the European Commission there are indications that it wants to clamp down on such tax loopholes in an effort to iron out tax distortions between member states.

But even without such sweeteners, Brussels will still offer sufficient inducements to companies, lawyers and lobbyists interested in keeping on top of European decision-making.

RELOCATION • by Michael Smith

High score with foreign companies

The lure of a pan-European image was one of the attractions for Rubbermaid

Brussels beckoned when Rubbermaid, the US consumer products company, decided to move its European headquarters from Luxembourg.

The choice was not automatic - other capital cities including London and Paris were considered. And since moving to Brussels 18 months ago, the company has had to tackle several problems, including Belgium's renowned red tape.

None the less Rubbermaid says it made the right decision. "It was a good choice," says Leon Power, a Rubbermaid vice-president who headed the relocation.

Rubbermaid makes Little Tike toys, Graco baby products and Curver home products. Long-established in the US, where it has 11,000 employees, it has recently been building up its presence in Europe where it employs 3,000 at sites in Poland, Hungary, France, Spain, Luxembourg, Netherlands, the UK and Ireland.

The company chose Luxembourg for its first European headquarters in 1994 in part because it had a manufacturing plant there. Within two years it decided to switch.

Transport facilities were one irritant. "We wanted better infrastructure in terms of planes, trains and automobiles," says Mr Power.

The company was also having difficulty recruiting the right people in Luxembourg for managerial and financial jobs. The competition from the country's banking sector was fierce and driving up Rubbermaid's costs.

This was a problem even when its European headquarters was just 15-strong, but the difficulties were likely to worsen because of the company's expansion plans. In the past two years it has tripled its European turnover, and will soon have a European headquarters staff of 50.

The US group considered locations which included sites in Amsterdam, Frankfurt, Paris and London but Brussels had a head start because the company was wary of locating in one of the large European countries.

"We did not want to be seen as a US, French, German or UK company," says Mr Power. "We wanted to be pan-European." Brussels also appealed to the company because of the advantages it offers the spouses and families of employees.

Plentiful supplies of high quality accommodation helps. Finding work for employees' English-speaking partners is also easier than in many other capitals. In Belgium the official languages are French, Flemish and German but English speakers can survive in Brussels using only their mother tongue.

"If a spouse goes to Paris and does not speak French the chances of finding work are unlikely," says Mr Power. "Here there are many international companies and many hire people who just speak English."

Brussels also scores because of the diversity of its education facilities, with schools catering for a variety of languages. "If we want to take staff from different locations in Europe – as we do – and they are married with children then their children can go to school with people of their own nationalities," adds Mr Power.

But Brussels also has its downsides.

Rubbermaid is by no means alone in finding the Brussels bureaucracy frustrating to deal with.

Even EU citizens relocating to Brussels complain about the seemingly endless visits they have to pay to local government headquarters to register themselves, as they must when coming to live in Brussels.

For non-EU citizens, including those from the US, it can be worse since they have to register before they arrive in the country and this can take up a lot of time and energy. "A couple of our people relocating from the US have found it really difficult," says Mr Power. "It is a hassle and a cost."

Rubbermaid has also found crime an unexpected problem, another complaint among companies relocating to Brussels. "It is fairly rampant," says Mr Power. "Our employees have suffered pickpocketing and car theft."

But, in general, Mr Power says Brussels has more than matched Rubbermaid's expectations. "In terms of infrastructure - one of the main reasons for coming here - we have got exactly what we wanted. We like it here. It's a great location."

TOURISM • by Derek Blyth

A new dynamism to lure tourists

The city has finally woken up to the fact that tourists bring in money

Brussels is often said to lack an identity, but the truth is that it has too many different identities.

It is seen by most tourists as a boring city where people go for business meetings rather than weekend breaks. The Brussels Convention Bureau has perfected the art of conference organisation, with the city now ranked second in Europe for meetings, behind Paris but ahead of London and Vienna.

Yet Brussels has so far failed to persuade tourists to appreciate its charms. Only one in five overnight guests is a tourist.

The large Brussels hotels can expect to achieve an occupancy rate of 70 per cent from Monday to Thursday, but many of their beds remain empty for the other three days.

The quietest periods are, ironically, July and August, when a room in Paris or Amsterdam can be impossible to find, but most of Brussels' 12,000 hotel rooms are empty.

Many of the big hotels quietly cut prices in an attempt to fill rooms, leading to some of the best weekend deals in Europe. A double room at one of the city's top hotels is normally BFr14,000 a night, but can drop to as low as BFr6,500 at weekends.

Some tourism experts see Brussels' problem as one of identity. Amsterdam has canals, Munich has beer halls, but what is the symbol of Brussels?

The oldest tourist sight in the city is the Manneken Pis, a bronze fountain of a young boy relieving himself in the street. Travellers have been heading to the narrow Rue de l'Etuve since the 15th-century to admire the little fellow, who is regularly kitted out in one of more than 600 costumes and occasionally primed to pour beer rather than mains water.

Nearby souvenir shops do a roaring trade in Manneken Pis garden fountains, beer dispensers and corkscrews. But a city that claims to be the Capital of Europe cannot be marketed on the back of a small boy peeing in the street.

The city has been grappling with this identity problem since the early 1950s, when it tried to transform itself from pleasant provincial town into cosmopolitan capital.

Thrusting local politicians came up with the idea of hosting a World Fair in 1958 to bring the crowds to Brussels. The centrepiece was the Atomium, an enormous steel structure based on an iron atom, magnified several billion times.

The Fair was a huge success. Visitors flocked to the Heysel site to admire Soviet Sputniks, American rodeo shows and futuristic buildings.

The site of the fair has since been redeveloped as a tourist park called Bruparck which features the Atomium, a 26-screen cinema, the EU-sponsored Mini-Europe miniature village, a collection of mock, old Belgian taverns, and fast-food restaurants.

The city's museums have suffered for years from low government funding and staff shortages. But improvements have been made recently, most notably by Francis Van Noten, director of the Musée du Cinquantenaire, who has worked for the past five years to improve his collection.

He has opened 50 new rooms, relaunched the 19th-century plaster cast workshop, and created a splendid treasury for the collection of medieval religious works.

A cluster of 18th-century neo-classical buildings near Brussels' Royal Palace is also being transformed into what is virtually a museum district. The Museum of Fine Art is being joined a new museum of usical instruments locat in a 19th-century art uveau building and an underground muse that incorporates the eavated remains of a mediev ducal palace.

A new museum deted to the late King Baudin is also being created the neighbourhood.

Brussels has now oken up to the fact that trism brings in money. dier Gosuin, regional toism minister, launched a trist weekend earlier this nth aimed at persuading pple to visit some of the cits 80 museums by offing half-price entry.

The Brussels tourist dce, TIB, is adopting a bre aggressive markeng approach to sell the ity more effectively. A new go has been launched featuring an open eye and the motto "Brussels: yours to discover".

A city marketing plan was unveiled earlier this year to encourage "a new and positive way of looking at our city". Residents were urged to share with tourists the pleasures of living in Brussels, to put on a "welcoming smile" and to stop making cheap jokes at the expense of Brussels.

The new dynamism is reflected in the decision to put Robert Palmer in charge of the programme for Brussels' year as cultural capital of Europe in 2000 (see Page 5).

Brussels' tourist office is also learning from other cities that a big exhibition can work wonders for a city's image.

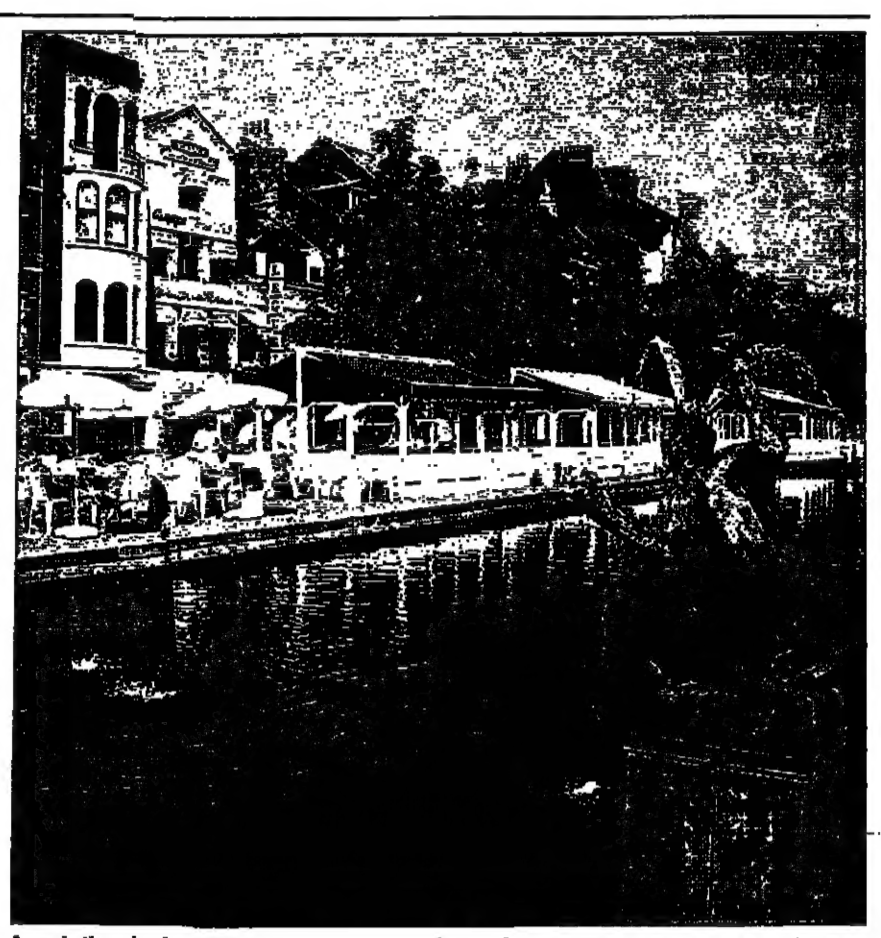
The current René Magritte exhibition, celebrating the centenary of the birth of arguably Belgium's most famous artist, is bringing eager crowds to the normally staid Musée des Beaux-Arts.

"We never expected such crowds," said Eliane de Wilde, the museum's director, after 14,000 people had tramped through the normally hushed rooms in the first six days.

The exhibition is accompanied by spin-offs such as surrealist tours of Brussels and the inevitable Magritte T-shirts.

But the most original contribution has come from a hotel chef who has put together two "surrealist menus" based on famous Magritte paintings.

Maybe Brussels has found its niche at last, as the surreal capital of Europe.



A marketing plan has been drawn up aimed at boosting tourism *Impact Photos*

Business guide to Erussels

■ **Brussels Region website:** http://www.bruxelles.irisnet.be (Dutch/English/French/German)
International telephone code for Belgium: 32
Brussels regional code: (0)2
■ **Currency:**
Belgian Franc 100 centimes = BFr 1
■ **Exchange rate:**
BFr62 = £1;
BFr37 = $1 (March 98)
■ **Business Hours:**
Offices 09.00 - 17.30 (Mon-Fri)
Shops 10.00 - 18.00 (Mon-Sat)
Banks 09.00 - 16.00 (Mon-Fri)
■ **Business languages:** French, Dutch, German, English
■ **Driving Licence:** International and foreign accepted.
Belgian licence is obligatory for residents.
■ **Electricity supply:** 230 volts AC 50 cycles
■ **Emergency numbers:**
Ambulance 100; Police 101
Time GMT+1 (+2 end-March to end-October)
■ **Tipping:**
Hotel staff BFr100, Porters BFr60, Taxis nil, Restaurants service charge included in the bill
■ **Travel:**
Brussels National Airport, Zaventem (17km from city) Tel: 722 32 11
Sabena World Airlines, Sabena House, Brussels National Airport 1930 Zaventem Tel: 723 23 23
■ **Train information:**
Belgian railways 219 26 40
Eurostar 224 88 56
Thalys 0900 10177
■ **Tourist information:**
Brussels Tourist and Information Office Hotel de Ville, Grand'Place, 1000 Brussels Tel: 513 89 40 Fax: 514 45 38
■ **Useful addresses and numbers**
Central Bank
Banque Nationale de Belgique
5 Bd de Berlaimont
1000 Brussels.
Tel: 221 21 11 Fax: 221 31 00
■ **Stock Exchange:**
Commission de la Bourse de Bruxelles
Palais de la Bourse, 1000 Brussels
Tel: 509 12 11 Fax: 511 95 00
■ **Statistical Office:**
Institut National de Statistique
44, Rue de Louvain, 1000 Brussels
Tel: 548 62 11
■ **Chambers of Commerce:**
Brussels Chamber of Industry and Commerce
Av Louise 500, 1050 Brussels
Tel: 648 50 02 Fax: 640 93 28
British Chamber of Commerce & EU Committee
Rue D'Egmont 15, 1000 Brussels
Tel: 540 90 30 Fax: 512 83 63
American Chamber of Commerce - Amcham
Av des Arts 50, 1000 Brussels
Tel: 513 67 70 Fax: 513 35 90
Brussels Business Federation (L'Union des Entreprises de Bruxelles):
Quai du Commerce 18
1000 Brussels
Tel: 219 32 23 Fax: 218 58 06
■ **Information for investors:**
Ecobru
c/o Brussels Regional Development Agency
Rue Gabrielle Petit 6, 1080 Brussels
Tel: 422 51 11 Fax: 422 51 12
Ministry of the Brussels-Capital Region
Foreign Investment Department
Rue du Champ de Mars 25, 1050 Brussels
Tel: 513 97 00 Fax: 511 52 65
■ **Exhibition and Convention Organisers:**
Brussels International Trade Fair
Parc des Expositions, Place de Belgique
B 1020 Brussels
Tel: 477 04 77
Brussels International Trade Mart
Atomiumsquare 211, 1020 Brussels
Tel: 478 49 89 Fax: 478 62 58
■ **Relocation Services:** Brussels Relocation
Tel: 353 21 01 Fax: 353 06 42
email brussels.relocation@skynet.be
Brussels Welcome Office
Tel: 358 17 72 Fax: 358 29 28
Aap Relocations
Tel: 658 80 80 Fax: 657 50 33
email mapreloc@compuserve.com
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Housing Service IGC
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Delta Tel: 770 41 51 Fax: 770 31 57
Groupe Trevi Tel: 343 22 40 Fax: 343 67 02
Continental Tel: 647 00 35
■ **Business Centres:**
EU area: Regus Trèves Centre
Rue de Trèves 45, 1040 Brussels
Tel 238 77 11
City: Regus Ave Louise 65
1050 Brussels Tel: 535 75 11
NCI Business Centre
Ave Louise 149, 1050
Tel: 535 75 11
Business People Services
Bd L Schmidt 119, 1040 Brussels
Tel: 743 82 00
■ **Translation/Interpreting:**
Centre of Translation Services Ave Louise 43-45, 1050 Brussels
Tel: 537 22 76
Berlitz
Ave Louise 306-318, 1050 Brussels
Tel 649 61 75
■ **Hotels:**
City centre:
Astoria, rue Royale 103, 1000 Brussels
Tel: 217 62 90 Fax: 217 11 50
Bristol Stephanie, Ave Louise 91-93, 1050 Brussels
Tel: 539 02 40 Fax: 538 03 07
Brussels Hilton Bd de Waterloo 38, 1000 Brussels
Tel: 504 11 11 Fax: 504 21 11
Conrad Brussels Ave Louise 71, 1050 Brussels
Tel: 542 42 42 Fax: 542 42 00
Metropole, Place de Brouckère 31, 1000 Brussels
Tel: 217 23 00 Fax: 218 02 40
Royal Windsor, rue Duquesnoy 5, 1000 Brussels
Tel: 505 55 55 Fax: 505 55 00
The Radisson SAS, rue Fossé-aux-Loups 47, 1000 Brussels
Tel: 219 28 28 Fax: 219 62 62
EU Area:
Dorint, Rue Archimède 22-28, 1040 Brussels
Tel: 231 09 09 Fax: 230 33 71
Swissôtel Brussels, Rue Parnasse 19, 1050 Brussels
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Compiled by Jo Mulcaire

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GASTRONOMY • by Eva Kaluzynska

Business booms after lean times

A new wave of inventiveness is drawing on such areas as Asia and the Middle East

Eat at top chef Pierre Wynants' Brussels restaurant, and you get a taste of Belgium in more ways than one. The country boasts more Michelin stars per square kilometre than France. But the most revered three-star establishment of all, Comme Chez Soi, is in a seedy area near the Gare du Midi Eurostar terminal.

Mr Wynants, like most other high flyers in Brussels gastronomy, shows no interest in moving, expanding, diversifying into other areas of catering, going on TV, marketing gadgets or endorsing cook-and-serve dishes.

A tubby man with a neat grey beard and scholarly glasses, Mr Wynants is a national treasure. To call this Belgian modest would be an understatement.

It would appear that over-achieving was the only way to go after he left college at 15 with a letter saying he would never make it as a chef. That was when he started work with his father, in the restaurant founded by his grandfather.

Comme Chez Soi is still a family business. It boasts a glossy Art Nouveau-style decor, though the most sought-after tables are in the kitchen.

The four-course menu at BFr2,150 must be one of the best bargains in the gastronomic universe. The restaurant always offers seconds, and when Mr Wynants comes out to greet diners, he asks questions like: "C'était suffisant?" (Did you get enough to eat?).

Book well in advance to enjoy marvellous interpretations of local specialities but go elsewhere if you want a quiet evening because here the dining room is cramped.

Bruneau, Brussels' other Michelin three-star establishment, offers a cuisine of great distinction amid a somewhat bland luxury decor, on the edge of town.

In the city centre, the Maison du Cygne is outstanding for its combination of cuisine, decor, location and views over Brussels' magnificent Grand' Place.

The Place du Grand Sablon is the biggest draw for chocolate-lovers, with two of the country's finest makers, Marcolini and Wittamer, competing from opposite sides of the square.

One of the city's finest fish restaurants, the discreet L'Ecailler du Palais Royal, is on the edge of Sablon. The other is at the Radisson SAS Hotel's Sea Grill.

For visitors to Brussels on a less-than-lavish budget, the cobbled alleys around the Rue des Bouchers, just off the Grand'Place are alluring, but best avoided - diners can easily clock up a very large bill for very mediocre fare.

Stick to those places the Bruxellois trust: La Taverne du Passage, Aux Armes de Bruxelles, Scheltema, L'Ogenblik, and Mr Wynants' favourite on evenings off, La Roue d'Or.

So much for traditional values. Brussels is also home to a generation of under-40 rebels who escaped from the Belgian capital's temples of gastronomy. They could have spent their lives clocking up Michelin stars, but became bored and went downmarket.

The highly successful chain of Le Pain Quotidien bakeries/cafes launched by Alain Coumont – and exported as far afield as New York – is a product of this movement.

Brussels prides itself on the quality and range of its restaurants — Impact Photos

He and sommelier Eric Boschman then opened Le Pain et Le Vin restaurant, a meeting-point for talents that have spun off throughout the city.

Fred Nicolay worked there as chef before opening a string of the city's most provocatively attractive eateries.

A big and brash character, Mr Nicolay has helped to breathe new life into the Rue Antoine Dansaert downtown area – Bonsoir Clara, Pathé Palace Café, Kasbah and Zebra Bar are among projects so far.

The gastronomic establishment hates him ("I think I served the editor of one of the big guides in shorts during a heatwave, and he's never forgiven me," he explains) but the punters vote with their tastebuds and turn up in droves.

Pierre Mendrowski divides his time between Le Pain et Le Vin and Bonsoir Clara, while French sommelier Philippe Emanuelli, formerly at Le Pain et Le Vin, has recently revamped an innovative wine bar at L'Amadeus. Sommelier Eddy Dandrimont works with a Japanese chef who transposed his skills to French cuisine at Inada.

As for the style of cuisine currently in favour, Mr Boschman has no regrets about the demise of nouvelle cuisine or, for that matter, old-style "authentics".

"There's a new wave of inventiveness, drawing heavily on Asia, the Middle East and Italy for inspiration," he says. "People want less artifice and better quality."

Business throughout the restaurant trade is booming again, after some years of belt-tightening.

"People going out are eating less, but better quality, and they're taking less time over meals. They're also drinking less. Part of the trade's response is more fixed-price menus, many of them under BFr1,000 BF," says Georges-Francis Seingry, director of the influential restaurant guide, Guide Delta.

Diners are also prepared to pay a premium for spectacular decor and atmosphere, a trend reflected in restaurants such as Majestic, La Manufacture, La Quincaillerie, and Les Salons de l'Atalaïde.

Those seeking old-fashioned cooking can also indulge in gastronomic time-trips, in places like Au Brabançôn, where the 79-year-old boss regularly does the the cooking herself. Try her Choesels au Madere, a traditional Brussels mixed-meat stew.

BRUSSELS 2000 • by Emma Tucker

Bid to drive out the grey image

Brussels 2000 project aims to bring together a fragmented culture

Launching Brussels as a European City of Culture for the year 2000 was always going to be a challenge. But Robert Palmer, the man who masterminded Glasgow's extremely successful stint as a cultural capital in 1990, had not quite bargained for Brussels's peculiar demands.

If it was one thing to take on a cold Scottish city, riddled with social deprivation, it was quite another to confront the language, political and regional divides of the Belgian capital, not to mention the multitude of cultures – from wealthy Eurocrats to low-income Moroccans – that live side by side.

"It has been a bit of a roller coaster ride so far," says the director general of the Brussels 2000 project, sitting in a large office in what was once a department store behind the Grand' Place.

According to Mr Palmer, Brussels is one of Europe's best kept cultural secrets. "It is a melting pot, very culturally diverse," he says. "But the cultural richness does not raise its head. It is largely ignored, both nationally and internationally."

"The city also has a lack of confidence which manifests itself in negativity," he says. "It is easily characterised as the capital of Europe, but only in the bureaucratic sense."

Thus most people's image of Brussels is shaped by the city's role as home to the European Union's principal institutions - a grey, administrative place that stamps on national traditions by dishing out unpopular laws.

The official aim of the project, which designates Brussels as one of nine European cities of culture for the year 2000, is to "develop a long-term, diversified cultural project for the city".

Mr Palmer's ambition is for Brussels to emerge from the project as a city that sees itself as an important cultural rather than bureaucratic centre, or a city living in the shadow of Paris and Amsterdam.

He also wants Brussels to recognise its uniqueness as a European city that brings together so many extraordinarily different cultures, not just from within Belgian society, but from other EU countries and further afield.

"If there is a theme for Brussels 2000 it is to do with creating a real sense of what makes Brussels Brussels," says Mr Palmer.

Three main avenues are planned to achieve this end. The first involves a rolling programme of events – exhibitions, street carnivals, and film festivals, covering a wide definition of culture that includes fashion and design. Many of the events will be localised, taking place in the 19 communes which make up the city.

Several big events, marking the run-up to Brussels 2000, will start this year including the major Magritte retrospective that opened earlier this month, and an exhibition about Albert of Habsburg and Isabella, the daughter of Philip II of Spain which opens in September.

The second main thrust is to improve the city's infrastructure by restoring old buildings, reconstruction projects and new constructions. Already more than 100 projects are envisaged, supported with either public or private funds.

The plans range from a renovation of the Atomium, built originally for the 1958 World Fair, to a face-lift for the lesser known Place Flagey, in the Ixelles commune, dominated by an impressive, but somewhat dilapidated 1930s radio building.

The third push involves creating a link between culture and the economy – described by Mr Palmer as "the most difficult but most important" element of the overall project. Here the idea is to use the arts as a catalyst for economic growth, by providing opportunities for young artists, encouraging entrepreneurial activities and involving schools and local organisations.

If these ideas are to succeed Brussels will have to overcome the fragmentation that characterises its cultural life today, where each community is left to do its own thing.

The committee set up to oversee Brussels 2000 has attempted to meet that challenge head on, bringing together the language groups, political groups and the public and private sector under one umbrella, instead of allowing each to operate in isolation.

It thus comprises 19 members representing no fewer than eight authorities – the City of Brussels, the federal government, the Dutch, French and German speaking communities, the Brussels region, and the French and Flemish committees of the Brussels region.

"There is a danger of it being hijacked by factions," says Mr Palmer, the only non-Belgian on the board.

"I feel at the moment there is a ritual dance around the fire but no-one has actually jumped into it yet," he says. "If one pushes too hard it forces the others to push too - that's how the construction could end in chaos."

But he is optimistic that the cultural integrity of the Brussels 2000 project will be preserved.

"Much of what I am experiencing here is 20 years behind what it should be in relation to other cities – for example in city planning, where 4-5 different authorities have to argue over claims and where there is direct political interference," says Mr Palmer.

"This is a city which if it doesn't take action quickly, will find it difficult to keep abreast of cultural developments in the 1990s."


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